The Economist

A booming world economy?
PAGES 13 AND 69

Recasting the United Nations
PAGES 25-27

The future of retailing
PAGES 65-68

A SURVEY OF EU ENLARGEMENT
AFTER PAGE 52

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OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
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Economics A-Z

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Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

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Print Edition November 22nd 2003

Over here
In defence of Bush and Blair, those oh so guilty men ... More on this week's lead article

The world this week

Politics this week
Business this week

Leaders

George Bush in London
Over here

Iran and North Korea
Give diplomacy a chance

The world economy
Boom or gloom?

European Union enlargement
Clubbing together

The New York Stock Exchange
John Reed's modest proposal

Letters

On international law, George Bush and Iraq, deforestation, patents, Jamaica, Paul Krugman

Special Report

America and the world
Binding the colossus

The International Criminal Court
For us or against us?

United States

Gay marriage
State of the union

The Medicare plan
Grandma's little helper

A new energy bill
The $100 billion turkey

Trade policy
Bras, bolts and Brazil

Education in New York
We're the teechers round hear

Minnesota and Louisiana
Twin states?

Lexington
The politics of rage

The Americas

Canada's political transition
Martin's turn, at last

Mexico's economy
Food for argument

Guns in Brazil
Disarming

Venezuela's courts
No justice

Ecuadorean time
The price of lateness

Correction
Correction: El Salvador's income per head

Asia

India
The parties flex their muscles

Philippines
Playing dirty

AIDS in China
A saving embrace

Australia
Unwanted

Previous print editions
Nov 15th 2003
Nov 8th 2003
Nov 1st 2003
Oct 25th 2003
Oct 18th 2003
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When east meets west
The great escape
Europe's building site
Deplore it, then ignore it
Could and should do better
Suspect subsidies
The return of politics
Too much of a good thing
When frontiers come down
Why Slovenia is not the Balkans
The good, the bad and the muddly
Towards an uncertain future
Acknowledgments
Offer to readers

Business

Corporate scandals
The fall of a media baron

Non-compete fees
Pay for not working

India's IT industry
Bangalore, Texas

Business in Russia
What's the deal?

The cosmetic-enhancement business
Beyond Botox

China's steel industry
Steel magnolia

Face value
Software's great survivor

Correction: Niall FitzGerald

Special Report

The future of retailing
Reinventing the store

Finance & Economics

The world economy
Altogether now...

American insurance
An old-fashioned marriage

Gold
A bug's life

A currency-market scandal
Yet another crooked market

American mutual funds
No end in sight

German finance
Pass the parcel

The Strait of Messina bridge
A bridge too far

Economics focus

Prostitution in Cambodia
The children in Gucci shoes

Afghanistan
The pains of motherhood

Middle East & Africa

The future of Iraq
First give them power of a kind, then let's discuss democracy

Anti-Semitism
An enduring virus

Terrorism
Who gains?

A United Nations appeal
Forgotten disasters

Rwanda and Congo
Time to lay down the machetes

Europe

Terrorism in Turkey
Blown apart

France's far right
The Le Pens are coming

The Olympics in Greece
Minus a minaret

Catalonia's inconclusive election
After Pujol

Serbia and Croatia
Election blight

Germany's Social Democrats
Slow implosion

Georgia's post-electoral turmoil
Ye shall not be saved

Charlemagne
An inter-governmental tug-of-war

Britain

The special relationship
What's in it for us?

Suicide bombers
One martyr doesn't make a jihad

Football
Fill your boots

Political theatre
Luvvies at war

Northern Ireland
The carnivore loses his teeth

Small houses
The amazing shrinking house

Inflation target
Hiccup ahead

Outsourcing jobs
It's not just India

Bagehot
Peer today, gone tomorrow

Articles flagged with this icon are printed only in the British edition of *The Economist*

In the long run we are all broke

Science & Technology

Immunology
A poxy story

Racial prejudice
Thinking about it

Planet hunting
Baby boom

Ornithology
Sleeping with the finches

Books & Arts

Board games
Thrills and skills

Central Asia and the Caucasus
The devil's tears

Vietnam revisited
Wounded lions

Literary biography
A poet's lost world

Living off the cruel sea
The fishermen's tale

German contemporary photography
Formal realism

Obituary

Charles Causley

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Part-time workers

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Stock-exchange listings

Emerging-Market Indicators

Overview

Merchant fleets

Economy

Financial markets

Advertisement

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Tenders
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Jobs
Regional Director Balkans
Job Profile Our Regional Director Balkans (based in Tirana), leads and mobil....

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Politics this week

Nov 20th 2003
From The Economist print edition

Bombs explode

EPA

Two bombs went off in **Istanbul** on November 20th killing at least 25 people and injuring over 300. Five days earlier, at least 25 people were killed and more than 300 injured after truck bombs exploded outside two synagogues in the city. The suicide bombers in the synagogue attacks were Turkish Kurds with alleged links to al-Qaeda.

See article: Terrorism in Turkey

President George Bush paid a three-day state visit to **Britain** amid a huge security operation to protect him from anti-war protesters and terrorists alike. In a speech, he said that the use of force was sometimes necessary, but that he believed in international institutions—provided they were “alert to the dangers” facing the world.

See article: George Bush in London

After a spate of anti-Semitic attacks in **France**, including the burning of a Jewish school, President Jacques Chirac convened a summit of political leaders to discuss the issue. The summit condemned the rise of anti-Semitism but offered no quick solutions.

See article: France's far right

Serbia failed, for a third time in just over a year, to elect a president because the turnout was below 50%. The failure may have been a blessing in disguise, because the leading candidate was a strong right-wing nationalist. His showing is ominous for the general election that has been called for the end of December.

See article: A nationalist revival in the Balkans

A left-wing pro-independence party in **Spain's** Catalonia did well in regional elections on November 16th. The Republican Left almost doubled its representation, to 23 seats in the 135-member regional assembly. It now holds the balance of power between the Socialists and the right-leaning nationalists who have usually run Catalonia.

See article: Catalonia's inconclusive election

The **German** chancellor, Gerhard Schröder, was confirmed as leader of the Social Democrats, securing the support of over 81% of delegates at the party congress in Bochum. But his re-election came amid much grumbling from party stalwarts.

See article: Germany's Social Democrats

Poland's president, Alexander Kwasniewski, has reportedly called on Leszek Miller, the prime minister, to resign if he fails to get his budget cuts through parliament. The two men are long-time rivals for control of the political left.

You may kiss the groom

The Massachusetts Supreme Court ruled that same-sex couples in the state have a right to marry. The judges asked the state assembly to produce legislation within six months allowing **gays to wed**.

Getty

See article: An important decision in Massachusetts

Kathleen Blanco narrowly beat Bobby Jindal to become the next governor of **Louisiana**, recapturing the seat for the Democrats. Mrs Blanco becomes the first ever female governor in America's “Deep South”.

See article: A race row in Minnesota

Arnold Schwarzenegger, was inaugurated as **California's** 38th governor, and immediately proposed a $15 billion bond to help clear the state's budget deficit. His finance director forecast a $62 billion shortfall by 2006-07 unless spending is cut.

A Yemeni cleric and his assistant were flown to the United States from Germany to face charges that they channelled money from a mosque in Brooklyn to **al-Qaeda**. Germany allowed the extradition after receiving assurances the pair would be tried in a civilian court and not face a capital sentence if found guilty.

John Allen Muhammad was found guilty in the **Washington sniper** trial and faces a possible death sentence. The trial of his alleged accomplice, Lee Boyd Malvo, continues.

A warrant was issued for the arrest of **Michael Jackson**, a former pop star, on multiple charges of child sex-abuse.

Forty years after the assassination of **President John Kennedy**, a poll revealed that 70% of Americans still believe that the killing was part of a wider conspiracy and not the actions of a lone gunman.

A quick turnabout?

In a sharp change of policy, America issued a new plan for **Iraq** that would speed the handover of power to Iraqis, who would have a provisional government, with more power than the current Governing Council, by the middle of next year. But elections of a parliament under a still-to-be-drafted constitution would not take place until 2005.

See article: A new plan for Iraq

Trade unionists in **Zimbabwe** called a strike to protest against the arrest of 360 people they said were rounded up for demonstrating against high taxes and economic mismanagement. The government admitted that inflation was 525%.

The South African government approved a plan to give free anti-AIDS **drugs** to those who need them.

The UN appealed for $3 billion to tackle 21 **forgotten crises**, most of them in Africa. It said the money could help save 45m lives.

See article: The world's other crises

Still dangerous

A French UN worker was shot dead in her car in the eastern town of Ghazni in **Afghanistan**. The UN subsequently said it was withdrawing workers from southern and eastern Afghanistan.

After a fresh outbreak of religious violence, security was tightened in Sulawesi, **Indonesia's** central province. A Christian minister and his driver were found dead in a river near Poso. The next day, a Christian man was beaten to death by a mob.

China gave warning that Taiwan's president, Chen Shui-bian, “risks war” if he launches any independence bid. The mainland has long threatened action against Taiwan, which it sees as a renegade province.

Going early

AFP

Jean Chrétien, **Canada's** prime minister, agreed to bring forward his planned retirement. He will now hand over power to Paul Martin, the Liberal Party's newly elected leader, on December 12th.

See article: Canada's about-to-be prime minister

In **Mexico**, President Vicente Fox's tax-reform plans ran into trouble. The Institutional Revolutionary Party, the largest in the Congress, rejected a plan to cut the VAT rate but start levying the tax on food and medicine.

See article: Mexico's new tax plan

Mexico's government fired its ambassador to the UN, Adolfo Aguilar Zinser, after he had complained in a speech that the United States regarded Mexico as a “backyard” and that America would never consider it to be an ally on a par with Europe.

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Business this week

Nov 20th 2003
From The Economist print edition

The fall of a media baron

Lord Black stepped down as chief executive of **Hollinger International**, a troubled media group that owns Britain's *Daily Telegraph*, the *Jerusalem Post* and the *Chicago Sun-Times*. He and three senior figures suddenly departed after it was discovered that they had received payments of $32m that had not been cleared by the board. America's Securities and Exchange Commission began an investigation.

See article: Lord Black in trouble

BSkyB's independent shareholders suffered two blows. They failed to stop the appointment as chief executive of James Murdoch, son of Rupert, the satellite-TV firm's chairman. And they were angry that Tony Ball, the departing boss, will get £10m ($17m) for agreeing not to work for competitors.

Le Meridien, a heavily indebted British hotel group, put its overseas assets on sale after failing to strike a restructuring deal with Lehman Brothers, an investment bank, and Hyatt, an American hotel chain. The hotels could fetch £700m ($1.2 billion).

Weetabix, maker of Britain's favourite breakfast cereal, was gobbled up by **Hicks, Muse, Tate & Furst**, an American private-equity firm, for £642m ($1.1 billion). The investment company clearly has designs on the British breakfast table; it already owns Typhoo, a big tea firm, and Hartley's, a jam-maker.

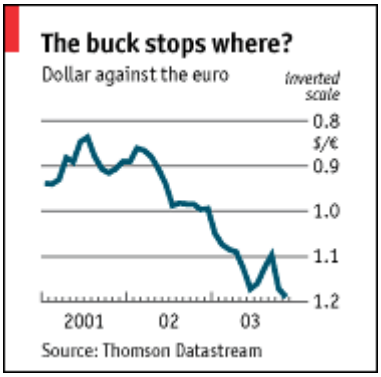
Bra brawl

America introduced measures to curb surging textile imports from China. It will restrain the import of **Chinese bras** (and dressing gowns and knitwear) with quotas; the Chinese government supports its bra-makers with subsidies, say the Americans. China said it would impose retaliatory tariffs on American imports.

See article: George Bush's trade policy

At a meeting of trade officials in Miami, a proposed **Free-Trade Area of the Americas** of 34 countries from Canada to Chile (but excluding Cuba) continued its evolution into something far more modest. America offered talks on bilateral free-trade pacts with six participants, including Colombia and Peru, and agreed to Brazil's demand to narrow the scope of the FTAA.

The **dollar** fell on fears of rising protectionism and news that net inflows of investment into American bonds and shares had plunged to only $4 billion in September, the lowest level since October 1998. The currency hit an all-time low against the euro. It also touched a three-year low against the yen.



Musical chairs

EMI made pre-tax profits of just £39m ($63m) in the six months to September. The British music group said that talks about a takeover of Time Warner Music were at “an advanced stage”—for a reported $1.6 billion. Competition may come from Haim Saban and Edgar Bronfman: the media moguls are said to be preparing an offer of $2.5 billion.

Bertelsmann's chairman, Gerd Schulte-Hillen, quit over his opposition to the German company's attempts to broker a merger with Sony's music interests.

Microsoft sought to allay fears about the rising tide of spam. The software giant unveiled SmartScreen, a filtering software for e-mail servers that will function with Microsoft's PC-based products to block unwanted incoming mail. Rival anti-spam software firms suggested that Microsoft's initiative would stifle competition.

See article: Bill Gates, software's great survivor

Vodafone, the world's biggest mobile-phone operator, lost £4.3 billion ($7.0 billion) in the half-year to September after large write-downs of goodwill. But underlying results were good. Shareholders will be rewarded with a bigger dividend and a share buyback worth some £2.5 billion.

DuPont sold Invista, a textiles and carpet business, to Koch Industries, which will pay the American chemicals group $4.4 billion. Invista is best known for producing Lycra, a stretchy fabric that came to prominence partnering “big hair” in the 1980s.

Our mutual fiends

Morgan Stanley agreed to pay $50m to settle charges by the Securities and Exchange Commission that it had improperly traded mutual funds. **Charles Schwab**, a big American financial-services retailer, came under scrutiny for “market timing” and late trading.

See article: American mutual funds

A fresh **financial scandal** hit Wall Street. After an 18-month investigation, federal prosecutors arrested 47 participants in the foreign-exchange markets for a “staggering array of criminal conduct” in the defrauding of big banks and small investors.

See article: Scams in foreign-exchange trading

The St Paul and **Travelers Property Casualty** announced a merger that will create America's third-biggest general insurer with a market capitalisation of $16 billion. The deal may trigger further consolidation in a fragmented industry.

See article: St Paul merges with Travelers

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George Bush in London

Over here

Nov 20th 2003
From The Economist print edition

In defence of Bush and Blair, those oh so guilty men

EPA

ON OUR cover on October 4th, we called George Bush and Tony Blair “wielders of mass deception”. We thought they had exaggerated the pre-war intelligence that Saddam Hussein still owned weapons of mass destruction. When no such weapons were found, the two leaders deserved to forfeit some trust. But this does not justify the venom heaped on them during Mr Bush's state visit to Britain. An event planned as a victory parade after Iraq ended up putting the president and prime minister in the dock of world opinion, where much of the jury has already pronounced them guilty.

Americans who see the placards calling their president a war criminal should be aware that a poll in the *Guardian* newspaper found that 43% were glad that Mr Bush was visiting (36% were not) and 62% considered America a force for good. However, most of those who thronged central London to vilify the president seemed to take it for granted that the Iraq war was wholly dishonest in its conception, and has been wholly calamitous in its consequences. Mr Bush stands accused of mucking up not only Iraq but also the planet itself (Kyoto, *passim*), the United Nations (“unilateralism”, *passim*) and the outlook in Palestine (why can't Mr Bush see, as a poll says Europeans can, that Israel is the number one threat to world peace?). Predictably, many saw the attacks on British interests in Istanbul on November 20th as Mr Blair's reward for supporting the United States—as though he were to blame, not the bombers. This view of the world, which turns Bush and Blair into the real “axis of evil”, gains force with each indignant repetition. What makes it spread?

One man and his lapdog, fouling our Eden

It is fed by three over-glib assumptions. The first might be called the illusion of prelapsarian innocence. This holds that Mr Bush and his British accomplice are the wanton wreckers of a system of international order, with the United Nations at its apex, which up until the Iraq war more or less succeeded in keeping the world peaceful. In reality, this fabled system never existed. The international order of the 1990s and beyond consisted of the usual disorder. The UN's record during that decade included both failures to intervene when it should have (to stop the genocide in Rwanda, for example) and interventions that failed (Srebrenica, Somalia). There was, of course, the occasional success as well, but like the war in Iraq some of these, such as NATO's American-led rescue of Kosovo's Muslims, were ad hoc actions undertaken without the express permission (until after it was over) of the Security Council.

Iraq is in itself a perfect refutation of the idea that the world was in apple-pie order before Mr Bush and Mr Blair upturned it. The arguments for and against the war are familiar. Repeating them is becoming tedious. But one point on which everyone should be clear is that Iraq was a problem that needed solving, not one dreamt up for America's convenience.

After the Kuwait war of 1991, nothing seemed capable of making Saddam honour the terms of the ceasefire he signed. The Security Council passed resolutions, which he ignored, and maintained sanctions, which made Iraqis poor and hungry. This is the abject state of affairs which critics of the war now refer to as “containment working”. Laying down the law while failing to enforce it is no way to uphold order, but that is how things stood before America and Britain acted (almost) alone, and how they might still stand had France and the rest of the permanent five managed to stop them. Though the rest hoped that more time, inspectors and last chances could do the business bloodlessly, it was a hope confounded by previous experience. At the least, those who deem the war a mistake should admit that, without one, Iraq would probably still be under the heel of its dictator.

Which leads to the second glib assumption, that the war has made things worse for Iraqis than they were before. That is presumably why London's protesters devised a clever wheeze to topple an effigy of Mr Bush, in parody of the toppling of Saddam's statue on the day Baghdad fell. This foolish notion belittles Iraq's suffering under the dictator. Indeed, to too many of the war's critics, the relief of Arab suffering seems to matter a good deal less than the supposed venality of America's motives. Iraqis are, to say the least, not natural admirers of Mr Bush. But most are pleased that the superpower got rid of their oppressor.

None of this is to deny that America has made mistakes. It has found the occupation harder than expected, and the guerrilla resistance more painful. That is probably why Mr Bush has now decided to transfer power next summer to a provisional government, instead of sticking with the more methodical democracy-building programme he originally envisaged (see article). This is a danger. Though the new plan will speed up the formal transfer of authority from Americans to Iraqis (as France and others have long proposed), the Iraqis who receive it will not have been directly elected. Yet the broad picture remains hopeful. Most attacks on the coalition are organised by a fraction of the Sunni minority, whereas most Shias and Kurds are still content to work with the Americans. Everything might still go wrong, but there is a middling chance that with enough money and a sustained effort America will indeed help Iraqis to create a serious democracy.

If Iraq is better off, what about the wider world? Here critics are on firmer ground. The collateral damage the war has inflicted on the Security Council, on the friendship between America and France and on relations between America and Islam is no illusion. It is, however, an illusion to hope that the superpower will see virtue in maintaining institutions and alliances whose overall effect is to prevent it from pursuing its own vital interests. That is why, under the beguiling slogan of a “multipolar” world, France's message to America—please make it easier for us to tie you down—is not going to be heeded. And it also explains what so many Britons see as the mystery of Mr Blair's slavish loyalty to Mr Bush.

When people complain that America is behaving as a global policeman, their real gripe is often just the opposite. It is just fine when America acts the policeman, using its muscle to enforce the law under orders from the Security Council. But the United States is not just the enforcement arm of the United Nations. Like all nation-states it tends most of the time to put selfish motives first, with the big difference that it has much more power with which to pursue them. Mr Blair's insight is that it therefore makes sense for the rest of the world to persuade America that it is more efficient to pursue its own interests within a system of institutions and alliances than outside. Mr Blair is not alone in seeing things this way. Kofi Annan, the UN's secretary-general, takes a similar view, which is why he has now asked a panel of eminent people to examine ways in which it will be able in future to respond more effectively to America's post-September 11th worries about terrorism and nuclear proliferation (see article).

How, though, do Americans feel? The paralysis of the Security Council before the Iraq war was a blow to the Blairite vision of how to live alongside the superpower. But all is not lost. In America, the difficulties of winning the peace in Iraq have revived an appetite for helpers. Mr Bush claimed in London that, like 11 presidents before him, he believed in international institutions, provided they were serious about the dangers facing the world. Now would be a good time for the internationalists to prove to America that they are serious—and for Mr Bush to prove that he means what he says.

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Iran and North Korea

Give diplomacy a chance

Nov 20th 2003
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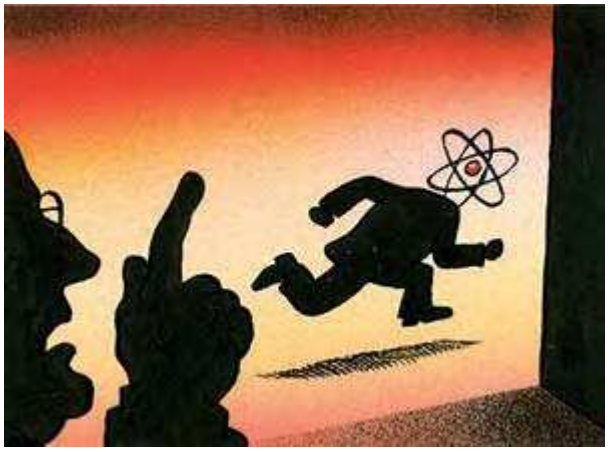
But it could still end in tears



THERE has to be a better way of dealing with those who dabble in weapons of mass destruction. Both supporters and opponents of the use of force to disarm Saddam Hussein's Iraq—critics of the UN's 12-year failure to enforce its own resolutions, and critics of America's decision to do the enforcing—can agree on that. For, whatever Mr Hussein did with his nastiest weapons, few would argue he was up to anything but no good. But if Iraq is not the preferred template for how to deal with dangerous regimes seeking dangerous weapons, what better ways are there?

The UN's secretary-general, Kofi Annan, has called together some wise heads to think all this through (see article). Unfortunately, the world's proliferating nuclear problems will not wait. North Korea and Iran, one claiming already to have the bomb, the other suspected of wanting one, are threatening to up-end the global anti-proliferation effort. Yet both also present an opportunity to prove that diplomacy can be a disarming alternative to the use of force in preventing that. But can the diplomats do better this time?

North Korea, whose claimed “physical deterrent” made it think it could get away with its nuclear nose-thumbing, is testing their skills to the limit. Six-way talks that include America, South Korea, Japan, China and Russia may resume next month. But they have been saved from collapse so far only by strong-arming from China—finally fed up that North Korea was seeking a second, uranium-enriching, route to more bombs (the first relied on plutonium), had torn up the Nuclear Non-Proliferation Treaty and was threatening the neighbourhood with its weapons—and by everyone else backing up America in insisting that North Korea verifiably give up its nuclear weapons if a deal is to be done.

Yet it could all still end in tears. North Korea's regime may be determined to hang on to its bombs. Or the united front it now faces may crumble, given both the difficulty of crafting reliable verification rules for such a mendacious regime and the likely need to twist North Korea's arm further to accept them. China's co-operation has limits: it has balked at sanctions, and with Russia's help has blocked any real discussion of North Korea's blatant nuclear defiance at the UN Security Council. So North Korea may be inclined to dig its heels in.

The better news from Iran is that its nuclear safeguards violations have been discovered—through tip-offs from regime opponents and sleuthing by inspectors from the International Atomic Energy Agency—before it could amass enough nuclear material to brandish a bomb. Concerted international pressure then forced it to confess to 18 years of lies. Yet there are already troubling signs that, at a meeting of the

IAEA's governing board this week, some governments will be tempted, as America's Colin Powell puts it, to declare premature victory. Russia wants to get back to nuclear business as usual. The Europeans, equally keen to pursue “constructive engagement” with Iran, want to avoid a formal finding of non-compliance with its safeguards obligations.

Be unbending

That would be a mistake: although it claims its nuclear programme is entirely for civilian purposes, Iran has broken every nuclear rule—including secretly enriching uranium and extracting plutonium—bar actually building a bomb. Failing to report these findings at the UN would undermine the IAEA's work (it still has not got to the bottom of all Iran has been up to) and the credibility of future safeguards. Reporting serious violations to the Security Council is anyway a duty, not an option. And, assuming that Iran now co-operates fully with inspections as promised, it need not trigger sanctions.

The Europeans argue that encouragement rather than rule-book tossing can better persuade Iran to give up the weapons-usable enrichment and reprocessing technologies it has mastered. But rule-bending to accommodate Iran sends the wrong signal. Not least because Iran is suspected of wanting to bend the rules for a different purpose: to develop its nuclear skills until it is ready to quit the treaty (only 90 days' notice is required) and turn nuclear at speed.

The long-term answer to the Irans and North Koreas is to craft new rules that separate more strictly civilian nuclear technologies from those—such as enrichment and reprocessing—that could be misused for bomb-building. In the short term, however, only continued pressure to uphold the rules as they are will reduce the likelihood that other means will have to be used again on those trying to break them.

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The world economy

Boom or gloom?

Nov 20th 2003
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The global economy is looking surprisingly perky—unlike the dollar

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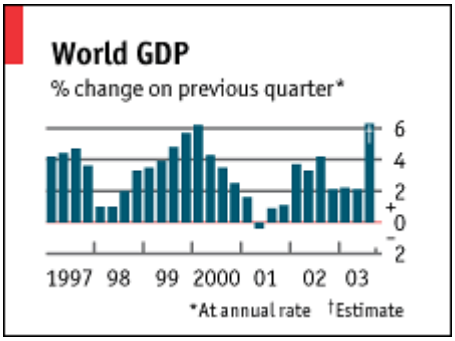

STOCKMARKETS are sliding again; the gold price this week hit a seven-year high of $400 an ounce; and the dollar slumped to a new low against the euro. “So what's new?” you might ask: the world economy clearly remains fragile. What is new, however, is the recent batch of better-than-expected figures on economic growth around the globe. Not only has the American economy rebounded, but Japan and the euro area are also now growing again, albeit more slowly. The news from some emerging economies is even more bullish. Many economies in Asia and Latin America enjoyed their fastest growth for years in the third quarter. Adding it all together, the world economy as a whole probably enjoyed its fastest growth for two decades (see article). So why have financial markets got collywobbles?

One explanation is that share prices had risen ahead of themselves. Another might be worries that America's rebound is unsustainable, being based on a seemingly reckless fiscal policy, unusually low interest rates, and a consumer borrowing binge. If these sources of growth dry up, one of the few remaining policy tools is the dollar. This week it fell to another all-time low against the euro. Foreigners are less eager than they used to be to finance America's current-account deficit, and in an election year America seems prepared to do anything to support jobs, including letting the dollar tumble and erecting protectionist barriers.

Many American economists and policymakers have long argued that the current-account deficit does not matter. Thanks to America's superior economic performance, they say, foreign investors are eager to buy dollar assets. But that no longer seems true. Net inflows of investment into American bonds and shares plunged from $50 billion in August to only $4 billion in September, the lowest level since the crisis caused by the collapse of Long-Term Capital Management in October 1998. The very suggestion that foreigners might not continue to buy dollar assets in future was enough to make some investors sell this week. A cheaper dollar will help to reduce America's external deficit, while at the same time supporting growth. The risk is that if the greenback falls too fast, bond yields could rise, choking off recovery.

That is why Washington cannot afford careless talk or gestures, such as its announcement this week that it plans to impose new quotas on imports of Chinese textiles. Following America's action earlier this year on steel tariffs, this sparked concerns that the government is desperate to protect jobs at any cost. And that cost could be high if it tries to hobble China.

America has long been the primary engine of the global economy, but increasingly China and the rest of Asia have become a second important engine of growth. By some measures (based on purchasing-power parity) China has accounted for a slightly bigger slice of global growth than America in recent years. For many economies, exports to China have given a bigger boost to growth over the past year than have exports to America. In the past 12 months, China's imports have risen by 40%, America's by a paltry 2%. Japan's exports to “Greater China” (also including Hong Kong and Taiwan) are now bigger than those to America.

If the overhang of consumer debt does eventually cause America's recovery to sputter, then the world economy will be better off if China's economy remains robust. Aeroplanes are always safer with two engines than with one.

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European Union enlargement

Clubbing together

Nov 20th 2003
From The Economist print edition

The new European Union members may have as big an effect on the EU as it does on them

Get article background

IT ALWAYS seems to be an historic year for Europe. But 2004 will qualify on any count. Next May eight ex-communist central and eastern European countries (along with Cyprus and Malta) will enter the European Union. The reuniting of a continent rent asunder for almost half a century by the Iron Curtain will be genuinely momentous.

As our survey in this issue explains, the new countries are all eager enthusiasts to “join Europe”. All have held referendums that have approved their entry by large margins. Given such inflated expectations, the big risk is that they will not be prepared for the rigours of EU membership, and that it will disappoint many of their high hopes. Yet, as with so many clubs, those who are least ready to cope with enlargement will probably not be the new arrivals at all; they will be the established members, who are too set in their traditional ways.

Indeed, although all EU members pay loud lip-service to the desirability of this enlargement, *sotto voce* many are less than enthusiastic about it. Spain, Portugal and Greece fret about losing cash as EU subsidies and regional assistance shift east. But the biggest concerns are felt in some of the original six countries that set up the club in 1957. They have long worried that, to use the Brussels jargon, widening will conflict with deepening: in other words, that expanding the EU's membership will make it harder for the club to move towards fuller integration and “ever closer union”.

That is the background against which to assess recent noises from Paris and Berlin about forming some kind of union between France and Germany. Coming in the middle of tough negotiations about the draft EU constitution (see article), the talk seems for the moment to be largely tactical. When Joschka Fischer, the German foreign minister, promises that the idea of moving forward with an *avant-garde* of countries if it proves impossible to move forward with 25 is “not a threat”, one can be sure that it is exactly that. The French and Germans are, in effect, warning those who would unravel the text of the draft constitution, or countries that may fail to ratify whatever emerges, that they might respond by forging ahead in a smaller group.

But is such a threat really all that worrying? In most respects, the answer should be no. For a start, talk of a full Franco-German union is largely fanciful. For all the recent intensity of the two countries' relationship, their shared approach to the Iraq war, loose talk of such ideas as common citizenship or

joint administration, and the interest of some in the French and German political elites, the people of the two countries are not remotely ready for any such step. Blood-curdling threats of uniting are largely a bluff—at least for now.

Hard-core merchants

Yet a more serious issue lurks behind the airy rhetoric. In a variegated club of 25, soon to be 27 or 28, the member countries cannot hope to share the same goals. Already in the EU of 15, some are in monetary union, others not; some are in the Schengen frontier-free zone, others not; some are in western defence clubs, others not. Such a Europe of different groups, moving in different directions and at different speeds, has gone under many labels: concentric circles, reinforced or structured co-operation, flexibility, two speeds, hard cores and peripheries, pioneers or *avant-gardes*.

Though some may jib at any phrases that might seem to denote first- and second-class status, or appear to introduce new divisions within Europe, the concept behind these labels is not inherently wrong. Indeed, in an EU of 25 or more, the notion of countries assembling in differing formations is surely inevitable. If some of the original six, say, want deeper integration, even to the extent of forming unions, the rest should not seek to stop them. But a big proviso should be to insist on two broad principles: non-discrimination and openness.

Under the first principle, none of this club-forming must endanger the EU's existing rules, notably those on free trade within the single market. If, for instance, an inner group moved towards tax or social-security harmonisation and wished to discriminate against those that held aloof, that should not be allowed. Under the second principle, smaller clubs must be open to all, meaning that those in them should not make it harder for others to join. And they should be created within the EU framework, not outside it. The European Commission and the Court of Justice could police these principles. Then clubs within clubs—even, one day, a Franco-German union—need hold no terrors.

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The New York Stock Exchange

John Reed's modest proposal

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Too modest. The Big Board must regulate itself no longer

Reuters

FEW can have been surprised on November 18th when the members of the New York Stock Exchange (NYSE) voted to approve reform proposals by John Reed, the exchange's interim chairman. The main change will be a restructuring of the NYSE's board. Its size will be cut from 27 to at most 12, none of whom will be representatives of member firms or of other institutions regulated by the exchange, who dominated the old board. The exchange no doubt hopes that, overseen by this independent board, it can draw a line under all its troubles of the past few months. These culminated in the resignation of its chairman and chief executive, Richard Grasso, to whom the board had offered a pay package of $188m.

Mr Reed's plan, although well intended, does not go far enough. The Securities and Exchange Commission, which must approve the changes, should ask the NYSE to think again. Whoever sits on its board, the NYSE will still regulate itself. The job of watching for breaches of the exchange's rules—and, more important, of checking on whether those rules inhibit competition in trading NYSE-listed shares—ought to be more clearly separated from the running of the exchange. This could be done in several ways, none of them perfect: by handing regulation to the SEC itself or to the regulatory wing of NASDAQ, or by following NASDAQ's lead and setting up a separate regulatory arm of the *NYSE* itself. The way it is done, though, matters much less than the fact that it happens.

To be sure, self-regulation has its merits, and has served both the NYSE and its customers well in the past. Knowing that listed firms meet the requirements of the NYSE, for example, or that members have a reputation to maintain has done much to create a huge, liquid stockmarket. Now, however, self-regulation seems merely a means of self-preservation.

Almost alone among big stock exchanges, the NYSE clings to a floor-based, rather than electronic, trading system. Any trade in a listed stock must pass through the single “specialist” firm dealing in it. Electronic rivals say they are hindered by the so-called “trade-through” rule that requires trades to take place on the NYSE's floor if they can be done more cheaply there. Critics argue that such practices have helped to maintain the NYSE's near-monopoly in the trading of shares listed on the exchange. The more open NASDAQ, for instance, handles only about one-fifth of trades in NASDAQ-listed shares.

Mr Reed sees no need to change any of this, pointing to evidence that shares are traded more cheaply on the NYSE than elsewhere. Nonetheless, many other markets have eagerly embraced electronic trading and competition, which may well serve investors better still. If, as the exchange believes, its way of doing things really is best for investors, the way to test is by fostering more competition—by, say, re-

examining the trade-through rule. An independent regulator could be trusted to do that. The NYSE, despite Mr Reed's best efforts, cannot.

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Letters

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From The Economist print edition

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On trial

SIR – Harold Hongju Koh's suggestion that the International Criminal Court (ICC) could have been used to bring Osama bin Laden and Saddam Hussein to justice is fanciful in the extreme (By invitation, November 1st). Mr bin Laden was responsible for atrocities against America before the September 11th attacks. Diplomatic efforts to bring him to justice were ineffective because he was protected by the Taliban in Afghanistan. An arrest warrant issued by the ICC would have been ineffective. As for Saddam, the United Nations spent 12 years failing to deal with him by diplomacy. The idea that he would have handed himself over to be tried by the ICC is ridiculous.

Unfortunately, international law can only be brought to bear in a situation where the defendant accepts the jurisdiction of the legal body involved and agrees to be bound by its judgment, or where there is a realistic threat of capture and punishment if the law is not upheld. Without a global police force with the authority and military support to enter countries and "arrest" anyone, even presidents, how can the ICC deal with these problems?

Trials, such as those of Balkan war criminals, only provide a punishment after the accused have fallen from power and no longer provide a potent threat. If anything, the threat of trial only serves to make people cling to power at all costs. Charles Taylor agreed to stand down in Liberia only when granted asylum in Nigeria and the threat of prosecution was removed.

Marko Jovanovic
London

Bush stays put

SIR – The premise of your analysis of the situation in Iraq is flawed ("Failure begins to look possible", November 1st). You suggest that President George Bush will, if the costs are great enough, cut and run from his commitment to Iraq and, by extension, the war on terrorism. Short of his removal from office in 2004, this is inconceivable. The war on terror is the central organising principle of his presidency. It is not something from which Mr Bush can (or will) walk away.

The question you should ask is where is the rest of the world? The UN, and the French, Germans and others should put away politics and get on board—for the sake of the Middle East and our collective future.

Kenneth Davenport
San Clemente, California

Can't see the wood

SIR – Your article about illegal logging in Ecuador is spot on in its analysis of the groups trying to block reform but, in passing, you perpetuate the fallacy that logging causes most deforestation ("Cut down", November 1st). In fact, agricultural expansion, particularly the conversion of forests to pasture to raise cattle, is the main cause of forest clearing in Ecuador and other tropical Latin American countries.

David Kaimowitz

Director-general
Centre for International Forestry Research
Jakarta

Patent reform pending

SIR – Your article on patents in America fails to mention that the US Patent and Trademark Office (USPTO) unveiled a plan more than a year ago to ensure patent quality ("Inventive ideas", November 8th). James Rogan, the USPTO's director, noted that "with 340,000 patent applications expected to join a backlog of 408,000 pending applications, and only 3,400 patent examiners to handle this massive job, USPTO was an agency under siege."

Among the plan's initiatives addressing these concerns are: a proposed fee increase that will provide adequate funding for the agency; post-grant review of patents as a less costly alternative to litigation; elimination of the exemption to the requirement that all patent applications be published 18 months after filing; and an expansion of "second pair of eyes" reviews before granting patents in emerging and complex technologies such as biotechnology and semiconductors.

Richard Maulsby
USPTO
Alexandria, Virginia

Jamaica's road to change

SIR – You rightly point out that violent crime and violent policing are far too common in Jamaica but it is not correct to suggest that riots are a common occurrence here ("Vicious circle", November 1st). Localised "roadblocks" in response to a lack of water, bad roads or police brutality happen regularly but these demonstrations almost never result in bodily harm or serious property damage. It is extremely rare for any visitor to Jamaica to be harmed in any way. The protests generally subside quickly once television cameras make the demonstrators' unhappiness known publicly and government officials respond appropriately. "Government by roadblock" has proven a remarkably efficient and relatively harmless method of getting a quick response from the authorities.

Since gaining independence in 1962, Jamaica has never witnessed any serious mass upheaval. All changes of leadership have come through the ballot box. Assassination, revolution or attempted coup have never interrupted our political process. Please try not to give the world the wrong idea about Jamaica.

Kevin O'Brien Chang
Montego Bay, Jamaica

Krugman's quite right

SIR – So Paul Krugman is a partisan hack (Face value, November 15th)? Did you not have the time to find out what Mr Krugman has also written about prominent Democrats like Robert Kuttner, Lester Thurow or Robert Reich? Mr Kuttner, proprietor of the *American Prospect*, believes that Mr Krugman is a right-wing mole: "far more charitable to very conservative fellow economists [like] Milton Friedman, Robert Lucas, Martin Feldstein...than to fellow liberals...whom he dismisses as pseudo-economists and mere 'policy entrepreneurs'."

Mr Krugman wages, and always has waged, intellectual thermonuclear war against all whom he regards as denizens of the pit and carriers of error. He's usually right (80% of the time?); he's sometimes wrong. The interesting question—which you did not pose—is what has the Bush administration done over the past three years to draw such a concentration of Mr Krugman's intellectual fire? It is odd that you name only one critic, lyinginponds.com, but mention unnamed "people" and "critics" who "cannot all be easily dismissed", "game theorists" who were "not convince[d]", "fellow economists, jealous". Perhaps this is because laudably you do not want to give public prominence to unbalanced loons.

J. Bradford DeLong
Berkeley, California

SIR – You say that Mr Krugman is still in the running for a Nobel prize despite his political engagement.

Nobel prizes are given to economists for their contribution to economics. Has Mr Krugman made a more important contribution than his peers in his field of research? Jagdish Bhagwati or Avinash Dixit is perhaps better qualified for the award than Mr Krugman. One can hope that the Nobel prize committee will continue to deal only with economic science and not anything else.

Philippe Kohler
Paris

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America and the world

Binding the colossus

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Reuters

Can the United States ever work comfortably with international institutions? First, we consider the United Nations; next, the International Criminal Court

Get article background

LONG before a bomb blew apart its headquarters in Iraq, the United Nations was deeply concerned about its role in the new terror-filled world. It remains the only body where the world's nations can take collective decisions. But to what extent can it, or should it, control how its members behave when they believe their security is threatened?

America's invasion of Iraq is the obvious test case. The United States claims that it did not invoke a right of pre-emptive self-defence in going to war, but acted both under Resolution 1441 and the "continuing authority" of a UN resolution mandating the use of force in the first Gulf war 12 years earlier. That is not how all the world sees it, not least because America has often made it clear that it will act on its own if it thinks it must.

Kofi Annan, the UN's secretary-general, believes that a perilous precedent has been set. "If...nations discount the legitimacy provided by the UN, and feel they can and must use force unilaterally and pre-emptively, the world will become even more dangerous," he said in October. Such an approach, he had earlier told the General Assembly, could lead to "a proliferation of the unilateral and lawless use of force, with or without credible justification." On the other hand, as a senior UN official admits, the only effective pre-emptive action at present is the unilateral kind.

The answer, Mr Annan believes, is to show that collective action can work just as well. But how? Mr Annan, realising that the UN has reached a "fork in the road" between continuing relevance and death, has recently announced the creation of a high-level panel to assess the present dangers and decide how the UN can respond, while keeping America on board.

Pre-emption is not specifically mentioned in the panel's brief, but it will inevitably be the focus of its discussions. Containment and traditional deterrence, relied on for the past half-century, are clearly no longer adequate to deal with the new world of terrorists armed with weapons of mass destruction. Should explicit doctrines of pre-emption or prevention replace them? And, if so, can they be carefully enough

defined?

At present, the UN charter, drawn up with the horrors of the second world war still fresh, obliges member states to “refrain from the threat or use of force” and to settle their international disputes by peaceful means. Recourse to force is permitted in only two circumstances: under Article 51, allowing self-defence, or under the broad powers given to the UN Security Council “to decide what measures shall be taken...to maintain or restore international peace and security”, including use of force. This could in theory, and perhaps in practice, be extended to cover pre-emption.

The notion of pre-emption is, of course, not new. In his “On the Law of War and Peace”, published in 1625, Hugo Grotius, considered to be the father of international law, stated that it was lawful “to kill him who is preparing to kill”. A century later, Emmerich de Vattel declared in “The Law of Nations” that “A nation has the right to resist the injury another seeks to inflict upon it, and to use force against the aggressor. It may even anticipate the other's design.” But, he goes on, the pre-emptor must “be careful not to act upon vague and doubtful suspicions, lest it should run the risk of becoming itself the aggressor.”

The classic formulation of the right of pre-emptive attack was given in the mid-19th century by Daniel Webster, then America's secretary of state, over the *Caroline* incident. In 1837, British troops attacked an American ship, the *Caroline*, which was being used to ferry supplies to anti-British rebels in Canada. The vessel, at the time, was in American waters; American public opinion was outraged. The British claimed legitimate self-defence, but Webster argued later that anticipatory action was justified as self-defence only where “the necessity of that self-defence is instant, overwhelming, and leaving no choice of means and no moment for deliberation.” In addition, he said, the force used had to be proportionate to the threat. A third justification is now usually added—clear evidence of an intent to attack.

The UN has, in fact, been fiddling with the notion of pre-emption ever since its foundation. Article 51, in particular, has been subjected to much “creative re-interpretation” to allow the extension of the right of self-defence to cover an ever greater array of situations: retaliation against terrorist attacks; armed intervention to protect or rescue citizens living abroad; anticipatory action against an imminent and overwhelming armed attack; and “robust” humanitarian or peacekeeping operations. All this is in apparent breach of the UN's bedrock principle of national sovereignty. But it is understood that necessity demands it.

During the cold war, states sometimes resorted to pre-emptive force under the supposed cover of Article 51. Israel did so in the six-day war against Egypt and other Arab states in 1967. Both George Bush senior and Bill Clinton supported pre-emption in principle against Iraq and North Korea, if they showed signs of using their chemical or nuclear arsenals.

Now President George Bush junior, along with some others, wants to extend Article 51 to cover—as a last resort—strikes against dangerous regimes before they become imminent threats, and even without clear evidence of an intent to attack. “If we wait for threats to materialise,” he says, “we will have waited too long.”

Such a re-interpretation of Article 51 may not be as outlandish as it seems. Once a rogue state or terrorist group has acquired nuclear weapons, it becomes virtually impossible to contain. Furthermore, the threat of pre-emption could be seen, and used, as a form of deterrence. As the Bush administration's National Security Strategy puts it, “Our forces will be strong enough to dissuade potential adversaries from pursuing a military build-up in hopes of surpassing, or equalling, the power of the United States.” This new reality is one to which the UN is going to have to adapt.

The fight for seats

Few, however, want to see a world in which the strongest decide when and against whom to use unilateral pre-emptive force—tempting others to follow suit. An agreed set of guidelines is evidently needed. And the difficulty is not only how to set clear rules, but how to bolster the legitimacy of the body that enforces them.

The United States has long been tempted to see itself as the enforcer of the rules. As Strobe Talbott, a deputy secretary of state in the Clinton years, once said, “The sheer pre-eminence of American power could, in itself, be the ordering and taming principle of a disorderly and dangerous world.” This is not simply hubris: Americans have always tended to assume, rightly or wrongly, that what is good for them

is also good for the rest of humanity.

AP

Annan fears chaos

They have also felt frustrated, most keenly in the case of Iraq, that the multi-voiced UN is so slow to move in the direction they desire. In his speech in London on November 19th, Mr Bush said both the credibility of the UN, and its relevance, depended on “a willingness to keep its word and to act when action is required.” Richard Perle, a leading neo-conservative and adviser to the Pentagon, has questioned whether a “coalition of liberal democracies” would not be better able to confer legitimacy on military action than the UN.

The principal object of everyone's criticism is the Security Council, the 15-member body responsible for taking the key decisions over war and peace. Composed of five powerful permanent members with veto rights—the United States, China, Russia, France and Britain—and ten elected rotating members without a veto, it is widely seen as anachronistic and woefully unrepresentative of today's geopolitical realities. Why, for example, should Russia, with a GDP smaller than the Netherlands', have a permanent seat, rather than Japan, the world's second-biggest economy? Why not give India a seat, or Brazil?

The arguments have been around for years, but nothing has been done. Now, in Mr Annan's view, the need for reform is urgent. “Unless the Security Council regains the confidence of states and world public opinion,” he said in September, “individual states will increasingly resort exclusively to their own national perceptions of emerging threats and how best to deal with them.”

None of the big five is about to relinquish its privileges. But Mr Annan has called for an enlargement of the council to make it more representative. Under one proposal, five more countries—probably Brazil, India, Germany, Japan, and one African country—would get permanent seats on the council, though with no veto, along with four more rotating members elected on a regional basis every two years.

But an enlarged Security Council is likely to produce even greater discordance, not less. To make agreement easier, some have proposed abolishing the whole veto system. But without the veto, many of the big members—especially the United States—would be even more tempted to work outside the UN.

A UN working group has been studying these and other proposals for Security Council reform for the past ten years, without result. This is why Mr Annan, in setting up his new reform panel, has decided to concentrate on policy issues rather than structural ones. These will include not only “hard” threats, such as terrorism and WMD, which worry the rich world most, but also the “soft” threats of much greater concern to the rest of humanity, such as famine, poverty and disease, as well as civil war and brutal regimes (see article).

Needing each other

As Mr Annan points out, all these struggles are linked. Not least, the UN's usefulness in other areas wins it respect from America, which otherwise it might not have. Despite complaints about bloated bureaucracy, the Bush administration admires the huge amount of work the organisation does through its

various humanitarian, social and economic agencies. American officials applaud the UN peacekeeping operations in East Timor, Sierra Leone and Liberia. And they value the UN's role as an influence-multiplier, a burden-sharer and a provider of expertise they themselves do not possess in areas such as peacekeeping and nation-building.

In many ways, therefore, the UN is a means to America's ends. “I believe profoundly that the US and UN need one another,” Mr Annan declared last month. However “flawed” the UN may be, says Richard Holbrooke, America's ambassador to the UN under Mr Clinton, “it is indispensable to American national interests”. Mr Bush, too, who enjoys warm personal relations with Mr Annan, accepts that the UN has its uses. Publicly, the United States is giving its full backing to Mr Annan's reform efforts. Indeed, an American, Steven Stedman, is heading the reform panel's secretariat, which is expected to do most of the leg-work.

This support clearly has its limits, particularly where pre-emption is concerned. American officials admit privately that the United States does not want any “iron-clad rules” which might cramp its style. But since the rules have already been stretched to accommodate a certain amount of pre-emption, agreement on a new set of principles may not, in practice, be impossible. Besides, the UN can still act as a restraining influence and a valuable sounding board for world opinion; and America, no matter how powerful, would prefer to have the world on its side.

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The International Criminal Court

For us or against us?

Nov 20th 2003
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A mistrustful America forces its friends to take sides

Get article background

JORDAN, one of the United States' few friends in the Middle East, was given a stark choice. Unless it agreed to sign a pact with the United States, prohibiting the surrender of American citizens to the International Criminal Court (ICC), it would forfeit the $100m in American aid earmarked for its help in training Iraqi policemen. In addition, King Abdullah's official visit to Washington next month would be cancelled. Jordan refused to give in, and the Bush administration backed down.

Others have not been so courageous. Some 70 countries, representing 40% of the world's population, have now signed bilateral agreements with the United States exempting American citizens—and often their own—from prosecution by the ICC. According to John Bolton, America's under-secretary for international security, America's ultimate goal is to conclude such pacts with every country in the world. The court, he complains, runs "contrary to...basic constitutional principles of popular sovereignty, checks and balances and national independence."

Getty

Not liable to prosecution

The ICC is the first permanent international body able to try individuals for war crimes, genocide and crimes against humanity. Set up under the 1998 Statute of Rome, it has jurisdiction over the citizens of countries which have both signed and ratified the Rome statute—known as "state parties"—as well as over those suspected of committing atrocities on the territory of a state party. The court is backed by nearly half the world's nations, including all the members of the European Union and all but one (Turkey) of America's NATO allies.

Yet America's arm-twisting of many of its own closest allies has at times been ferocious. Under the American Servicemembers' Protection Act, passed last year, the administration threatened to cut all military aid to those countries which had ratified the Rome statute, but which were unwilling to sign bilateral impunity agreements with the United States. NATO members and certain other allies were exempted. But some NATO candidates were warned that failure to enter into such pacts would put their candidacy at risk.

Many third-world countries, heavily dependent on American largesse, scrambled to comply. But others dug in their heels. In July, the Bush administration announced the suspension of millions of dollars in military aid to 35 of the ICC's supporters who had refused to sign bilaterals. They included Colombia, the third-largest recipient of American military aid and one of America's key partners in its war on drugs, as well as several countries that have provided troops for the war against Iraq. Four, including Colombia, have since had their aid restored after signing on the dotted line. But 31 others face losing a further $89m in military aid in the fiscal year that began in October.

Trumped-up charges

The United States says it fears that rogue nations and anti-American activists could use the court to bring spurious, politically motivated charges against its citizens. But several safeguards already exist to prevent this. Under the Status of Forces Agreements, all military personnel involved in UN peacekeeping have the right to be returned to their own countries for trial. The ICC can try a suspect only if his home

country is “genuinely unable or unwilling” to. This principle applies regardless of where the crime occurred or whether the home country has signed up to the court.

After six months, the ICC would be entitled to review the case, but could take it over only if it believed the domestic legal proceedings had been bogus and designed solely “to shield the suspect from criminal responsibility”. Mere disagreement with an American court's findings would not be enough. As a further safeguard against frivolous charges, the ICC's “pre-trial chamber” must decide at the start whether there are reasonable grounds for prosecution. Should an American still slip through the net, the president has his own powers, under the American Servicemembers' Protection Act, to use “all necessary means”, including force, to secure the release of American citizens detained by the court.

Despite these safeguards, the Bush administration remains fiercely opposed. A month before the ICC officially came into existence, in June last year, it announced the “withdrawal” of the United States' signature on the Statute of Rome (which Bill Clinton, too, had never intended to ratify). Two months later, it threatened to veto the renewal of the UN peacekeeping mission in Bosnia unless all Americans, civilian and military, were given blanket immunity from prosecution by the court. Last June it demanded, and got, a further 12 months' immunity.

None of the 15 EU members or ten candidate countries has yet signed impunity pacts with the United States. But this, say the Americans, is because the EU has been exerting its own pressure to persuade them not to do so. Although these bilaterals have been formally ratified so far by only 15 countries, the Pentagon claims they are already “in force” in 41, and expects more ratifications to follow.

The United States insists that it is not against international courts per se. It backed enthusiastically the first international tribunals for war crimes in ex-Yugoslavia and Rwanda, and supports the tribunal in Sierra Leone. But since the advent of the ICC, its ardour has cooled. It will not countenance a similar tribunal for Iraq.

Some of its fears are real. The world is becoming more anti-American, and the court's case-load reflects that. More than 100 of the 600-odd complaints so far received by the ICC concern Americans, although most of them, for one reason or another, are probably invalid.

Some wonder, though, whether the real reason for American hostility arises from the court's claim to prosecute “crimes of aggression”, as well as war crimes, genocide and crimes against humanity. Many, besides America, worry about the vagueness of that term. If it were ever defined, it could hobble the Bush administration's endorsement of pre-emptive strikes. Some already claim that its attack on Iraq was illegal under international law.

The ICC's judges and officials have now been appointed. The first case, probably concerning atrocities in Congo, is likely to be heard next spring. Although few believe the United States could really destroy the court, they fear it could seriously undermine its credibility. “All we need from the United States is benign neglect,” sighed one senior court official. “Is that too much to ask?”

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Gay marriage

State of the union

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Getty

A Massachusetts court starts a national debate that poses problems for both the Republicans and the Democrats

ON NOVEMBER 18th, the Massachusetts Supreme Court ensured that gay marriage would be a galvanising issue in the 2004 election. By a four-to-three majority, the court ruled that a ban on same-sex marriage violates the state's constitution. “The right to marry means little,” the court declared, “if it does not include the right to marry the person of one's choice.”

Gay-rights groups described the decision as a “landmark”. Conservatives were furious. “We must amend the [federal] constitution,” announced Tony Perkins, head of the Family Research Council, “if we are to stop a tyrannical judiciary from redefining marriage to the point of extinction.”

The ruling was a significant advance on the most liberal regime so far. In 1999, the high court in another north-eastern state, Vermont, decided that same-sex couples were entitled to marriage-like benefits and protections, but it did not require them to be eligible for marriage licences, thus paving the way for the state's famed “civil unions” which the then governor, Howard Dean, signed into law in 2000.

There are some legal experts who think that the language of this week's ruling from Massachusetts is vague enough to permit a similar compromise “civil-union” solution. But they are in a minority. The ruling makes no mention of a legal equivalent and seems to require the legislature to permit gay marriage outright. The decision was written by Chief Justice Margaret Marshall, a former anti-apartheid campaigner, with the bold, confident tone of someone who knows she is making history. She gave the state legislature a short 180 days to take the steps “it may deem appropriate in light of this opinion”.

The ramifications stretch far beyond Massachusetts. In 1996, Bill Clinton signed the federal Defence of Marriage Act, which defined marriage as being between a man and a woman. If Massachusetts allows gay marriage it will start a legal battle that will surely have to be decided by the Supreme Court. The ruling also challenges similar defence-of-marriage laws in 37 states. For instance, a gay couple, married in Boston who moved to Dallas, could claim they were being denied equal protection under the constitution.

Whatever the legislature does next spring, opponents will have trouble blocking it. Governor Mitt Romney, a Republican, has vowed to fight for a constitutional amendment, defining marriage as the

union of a man and a woman. But the soonest an amendment could be legally enacted is 2006. Many gay couples are already celebrating with glee, exchanging marriage proposals and popping champagne. “I'm proud to reside in a state whose constitution is so enlightened,” said state Senator Jarrett Barrios, one of a handful of openly gay state lawmakers.

One reason why some gay leaders have argued that civil unions offer a more pragmatic solution than marriage is the fear of a backlash. This is now happening. The ruling was denounced by Boston's new archbishop, Sean O'Malley. Despite its liberal reputation, the Massachusetts legislature has proved a tough laboratory for gay-rights issues. A bill to provide benefits for domestic partners of gay state workers has repeatedly stalled.

At the national level, the gay-marriage issue poses profound problems for both parties. The Democrats have the more immediate challenge. They do not want the 2004 election to be fought on the sort of cultural terrain that has proved so treacherous for their party over the past 30 years. Most Americans regard marriage as essentially a religious institution: more than 80% of them are married in a religious ceremony, and most religious institutions are opposed to marrying gay couples.

Gay marriage could provide the Republicans with a powerful lever to pry away working-class voters from the Democratic cause. Battleground states such as Ohio have been hard hit by the loss of manufacturing jobs, but they tend to be culturally conservative. It will also rally the Republican base. According to a new poll by the Pew Research Centre, Republicans oppose gay marriage by a ratio of more than five to one. In the 2000 election, some 4m Evangelical Christians stayed at home (which, argue Mr Bush's supporters, was one reason why the result was a draw). Gay marriage could be just the issue to make sure such folk turn up at the polls.

By contrast, likely Democratic voters are more divided on the issue: 39% support marriage rights and 52% oppose them. The more liberal wing of the party includes powerful interest groups such as Human Rights Campaign that regard gay marriage as the civil-rights issue of our time, and will not tolerate any fudging on the subject. But at the same time a quarter of all Democratic-leaning voters say that they “strongly” oppose gay marriage, including many blacks, southerners, old people and working-class voters. It would be hard to invent an issue better designed to divide elite liberals from Joe Sixpack.

The Democratic presidential contenders are already distancing themselves from the Massachusetts decision. The only candidates who have given their unconditional support are the no-hopers: Carol Moseley-Braun, Dennis Kucinich and Al Sharpton (who says that he would proudly perform a same-sex marriage ceremony). Wesley Clark, Dick Gephardt and John Kerry all oppose gay marriage, but support civil unions. John Edwards, Joe Lieberman and Dr Dean all oppose gay marriage and argue that states should decide whether to approve civil unions. Tom Daschle, the Democratic leader in the Senate, responded to the Massachusetts ruling by saying that he believed that the federal Defence of Marriage Act would pass constitutional muster.

Tomorrow's question

Yet the gay-marriage debate is far from risk-free for the Republicans. Most Americans may be against giving homosexuals the blessing of full marriage, but they are also uncomfortable with anything that smacks of intolerance. Polls show that around half the public think that gay couples should have the legal right to adopt children, and more than half think that they should have the same legal rights as married heterosexual couples when it comes to health benefits and inheritance.

To the distress of social conservatives, the White House has been making conciliatory noises to gay groups. George Bush will no doubt try to appear as tolerant as possible while drawing the line at gay marriage. But some of his supporters will be less than diplomatic. The Christian right speaks of a “homosexual agenda” that is designed to destroy the most fundamental human institution. Protesters have followed Dr Dean with posters that claim that “God hates fag enablers” and other less printable phrases.

Looking further into the future it is easy to see how such intolerance could cost the Republicans dear. The proportion of people who say that homosexual relations are “not wrong at all” has tripled, from 12% in 1973 to 32% today. Leading politicians such as Dick Cheney and Mr Gephardt have openly gay children. Openly gay characters pop up in sitcoms and movies. About half of Americans under 30 say they favour the legal right to gay marriage compared with only 22% among the over-65s. The Massachusetts decision will not only resound around the land in the 2004 presidential debate. Its echo will be carried for

many years to come.

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The Medicare plan

Grandma's little helper

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A possible coup for the president, but little in the way of reform

ONE Texan president, Lyndon Johnson, oversaw the introduction of Medicare, America's health-care system for the old and disabled, in 1965. Now George Bush may preside over the system's biggest expansion—extending the benefit so that it pays for prescription drugs.

After months of haggling in Congress, a deal emerged on November 15th that introduced the drug benefit, along with some token efforts to control costs. As *The Economist* went to press, this pact was under attack. From the left, Senate Democrats, along with the rat-pack of presidential hopefuls, condemned it as a sop to the health industry and—because of its hints at competition—a threat to the Medicare programme itself. From the right, Republicans grumbled about a huge expansion in an already unaffordable programme.

All the same, a bill will probably be passed before Congress adjourns next week. The compromise has the backing of the grandmother of all lobbyists, the AARP, which has 35m elderly members and has promised a $7m advertising blitz. It also has the support of medical associations, drug companies and the health insurers (with all their myriad lobbyists). From Buckingham Palace, Mr Bush has promised to fight actively for its passage.

The deal is that, from 2004, all Medicare recipients will get drug cards to buy their prescriptions. By enlisting the muscle of bulk purchasing, these cards alone should cut old people's drug bills. Poor Americans will also get $600 a year to help with drug costs. In 2006, the full benefit kicks in: for an average monthly premium of $35, America's old folk will be able to get coverage for 75% of their drug costs between $275 and $2,200. Thereafter, the government bows out, unless an individual's drugs bill reaches $3,600. From that point, Uncle Sam picks up 95% of the tab.

The bill cleverly buys off most of the vested interests. Some $70 billion in tax breaks and subsidies goes to dissuade employers from dropping drug-benefit coverage for their retirees. Private providers of health plans, such as the dreaded Health Maintenance Organisations, get billions of dollars to persuade them to enter the market of insuring the old—not only for prescription drugs—and thus offering some competition to Medicare. There is more money for public health care in rural areas. Doctors get paid more for treating Medicare patients. Even drug firms are relieved that the law includes no price controls, no government purchasing of drugs (which could have sharply reduced prices) and no green light for importing cheaper drugs from Canada, though there is an effort to promote the use of cheaper generic drugs.

The “reforms”, though, are toothless. There is a modest move towards means-testing: from 2007, richer old people will have to pay higher premiums for certain doctors' services. If general government revenue looks set to make up more than 45% of Medicare spending at any point over a seven-year horizon, Congress is supposed to try devices such as hiking pay-roll taxes; but there is no automatic cost-control, and no mechanism for ensuring that Congress actually passes any measures. As for the idea, horrific to Democrats, of introducing formal competition to Medicare from private providers, this will go ahead—but only in six cities and only starting in 2010. Previous pilot-projects in the late 1990s went nowhere, as no congressman wanted the test to take place in his district.

If he gets the bill through, Mr Bush will have helped his chances of re-election. He can take credit for the expansion of a hugely popular government programme. His credentials in health care, traditionally Democratic turf, will be burnished. It will be harder to depict him as merely the friend of the rich. And, best of all, hardly any of the Medicare plan will be implemented before the next election, leaving little risk of disillusionment.

That still does not mean it is a sensible idea. At a price-tag of $400 billion over the next ten years (and far more thereafter), the plan dramatically expands an already unaffordable scheme just before the baby-boom generation starts to retire. As so often with Mr Bush's budgeting, America's long-term fiscal health is being mortgaged for short-term political gain. As one conservative Republican put it this week, the Medicare bill will prove “an extremely expensive way to buy votes”.

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A new energy bill

The $100 billion turkey

Nov 20th 2003 | NEW YORK
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The no-lobbyist-left-behind bill has arrived

THANKSGIVING came early this year for the energy industry. After three years of talk, Congress has agreed on a massive energy bill, full of handouts to every imaginable corner of the business. Republican leaders rammed the bill through to help George Bush's re-election race. They may have gone too far.

As *The Economist* went to press, Democratic senators looked set to start a last-minute filibuster to delay the bill. They are still furious that the Republicans shut them out of the process of reconciling the Senate and House versions of their bill. But when John Dingell, the top Democrat on the House energy committee, compares reading the 1,100-page bill to "lifting the lid of a garbage can and smelling the strong smell of special interests", he is not merely making a partisan point. The "no-lobbyist-left-behind bill" has also been condemned by John McCain, the libertarian Cato Institute and the *Wall Street Journal.*

Is the law really that bad? Yes. Invoking the bogus notion of an energy-supply crisis, Republican leaders have doled out a fortune to energy lobbies. The biggest whack—some $22 billion—goes to the oil-and-gas industry. Having lost the opportunity to drill for oil in the Arctic National Wildlife Refuge, it will get billions to build a pipeline to bring natural gas from Alaska to Chicago. The nuclear industry gets more than $7 billion. The coal industry picks up $8 billion.

As for green projects, this is only an excuse for more pork. The most egregious example is cash for "renewable" ethanol, an ungreen fuel additive made from corn, which is much loved by farmers and thus by politicians (including many Democrats) who crave their votes. By contrast, the Republicans refused to tighten the Corporate Average Fuel Economy law, which dictates the fuel efficiency of new vehicles.

The few improvements are mostly to do with the electricity sector. Shamed into action by the great blackout in August, Congress has imposed reliability rules for the power grid. It has also repealed the Public Utilities Holding Company Act, an arcane law that has stifled the modernisation of the sector; if that goes, Warren Buffet, a celebrated investor, has promised to pour billions of dollars into the energy industry.

Yet do not be deceived. This is a ghastly bill, which, by the calculations of Aileen Roder of Taxpayers for Common Sense, could cost taxpayers $96 billion over the next decade. The energy industry should have a good Thanksgiving—especially the company that has been granted tax credits to make fuel by compressing turkey carcasses.

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Trade policy

Bras, bolts and Brazil

Nov 20th 2003 | MIAMI AND WASHINGTON, DC
From The Economist print edition

George Bush's free-trade rhetoric looks increasingly hollow

Get article background

A GENERATION ago, bra-burning was a symbol of the womens' movement. This week, bras found a new political significance—as a symbol of the Bush administration's retreat from free trade. On November 18th, the Commerce Department announced that safeguard quotas would be imposed on imports of bras, dressing gowns and knitted fabrics from China. Future import growth in these products will be limited to 7.5%.

By itself, this decision is neither illegal nor economically important. Under the rules which govern China's accession to the World Trade Organisation, America is allowed to take unilateral safeguard action against Chinese imports if they are deemed to be causing a “market disruption”. Overall American imports of these products from China were a mere $497m in first nine months of 2003, compared with $9 billion in overall textile and clothing imports (America does not even make bras, though it does export elastic and fabric for assembly in Central America).

But the decision is enormously politically significant. George Bush has, for the first time, taken an overt protectionist step against China—the popular scapegoat for job losses in America's industrial heartland. Until this week, the White House had restricted itself to bellicose rhetoric, usually to do with the value of the Chinese currency. Now it has crossed the Rubicon. “This is only the beginning,” bragged one textile lobby group this week. More anti-Chinese safeguards will hardly induce the Chinese to open their own markets. Indeed, on November 20th China's commerce ministry announced it would raise tariffs “on some commodities imported from the United States.”

One step forward, two back

The Chinese insisted that this was in retaliation to American duties on steel imports imposed by Mr Bush last year. It ties into the broader worry about Mr Bush's commitment to free trade. The World Trade Organisation declared the steel tariffs illegal on November 10th, and the European Union has threatened to retaliate with $2.2 billion of tariffs if they are not lifted by December 15th. Yet Mr Bush still seems unwilling simply to get rid of them.

Instead, the White House appears to be discussing a compromise with the steel industry which would reduce the tariffs sharply and bring forward their removal from March 2005 to September 2004, but would not eliminate them now. The EU, publicly at least, has dismissed any compromise and still threatens to retaliate.

Meanwhile, momentum also seems to be slipping from the administration's efforts to push for ambitious trade deals. The official Bush agenda has been to promote trade at the global, regional and bilateral level simultaneously. The global trade talks suffered a body blow at Cancún in September. And this week's ministerial meeting of the Free Trade Area of the Americas (FTAA) in Miami seemed likely to endorse a far less ambitious vision of regional integration than had been touted by Mr Bush's team.

America has long argued for a comprehensive agreement that includes commitments on investment, competition, services and intellectual property rights. Brazil, the hemisphere's southern economic behemoth, objects, in part because the White House refuses to consider reducing its farm subsidies as part of the FTAA, claiming they must be reduced on a global basis. After Cancún's failure, America's relationship with Brazil became fractious, raising the spectre of another Cancún-style collapse in Miami.

Judging by an anodyne draft declaration that appeared on the eve of the ministerial meeting, there will be no collapse. Instead, the region's ministers will agree a vague framework this week, which preserves the idea of a broad-based FTAA, but is likely to spur only modest liberalisation in each area. Countries that want to go further will have to negotiate separate deals, either with the FTAA or outside it. Hardly the ambitious, comprehensive approach that Mr Bush once wanted.

In Miami, American negotiators shifted their interest towards bilateral deals. The White House announced the start of negotiations to set up “state of the art” deals with Colombia, Peru, Ecuador, Bolivia, Panama and the Dominican Republic. From an economic perspective a web of bilateral trade deals is vastly inferior to a wider agreement.

But Mr Bush may not even get much on the bilateral level. Negotiations on a free-trade agreement with Central America are virtually complete, but congressional opposition is rising fast. The vote counters in Washington worry whether such a deal could pass Congress in an election year. One political rationale for the textile safeguards on China is to shore up legislative support for other trade agreements, such as the deal with Central America. Unfortunately, this may prove a Faustian bargain with dangerous consequences.

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Education in New York

We're the teechers round hear

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What you can get away with, if you work in a school in the Big Apple

Moskowitz the mutineer

WHAT ought to have been the gently thoughtful subject of education brought four days of drama and squabbling to New York's city council. At the council's discussion of the matter, which ended on November 17th, witnesses were said to have been intimidated into not turning up. Others preferred to testify on audiotape, with their voices disguised. While some said it was like the old days in the Soviet Union, Randi Weingarten, the head of the teachers' union, pounded the table, waved papers in the air and shouted that teachers were being “demonised”.

All this is the work of a little-known council member, Eva Moskowitz, a former university professor. Without any real backing from her peers, she has illustrated the need to tackle the bizarre work practices in the city's schools.

Who would have known, for instance, that a caretaker could refuse to vacuum rugs because his union's contract mentions only sweeping and mopping? The caretakers are also forbidden to paint anything other than “walls to the height of ten feet”. Teachers can miss several consecutive weeks of school with no real penalty. It can take years to remove a teacher who is not doing his or her job properly. One clause in their contract bars teachers from monitoring corridors or lunch-rooms. Meanwhile, the union representing school principals has refused to let the schools' chancellor, Joel Klein, pay $25,000 in bonuses to efficient school heads.

The contracts that lay down these rules are the product of decades of negotiation between City Hall and the unions. The result is that many of New York's schools are less clean, less safe and worse at teaching than they ought to be. It has also become increasingly evident that, when it comes to schools, it is the unions, not Mr Klein or the city's mayor, Michael Bloomberg, that have the real clout. Most local politicians are Democrats—and indebted to the public-sector unions.

True to this heritage, during the hearings many council members rallied to the unions, criticising Messrs Klein and Bloomberg for being rude about the contracts. Union leaders condemned Ms Moskowitz as the mayor's propagandist, even though she put equal blame on the unions and City Hall for the dysfunctional contracts and has also been a vocal critic of Mr Klein's recent reorganisation.

Mr Klein must presumably be yearning for the quiet days when, as Bill Clinton's trustbuster, he was merely trying to break up Microsoft. The hearings should have provided plenty of support for some of his schemes, such as privatising the caretaker services, paying teachers more if they are willing to work in bad schools, and making it harder for employees who do their work badly to cling on to their jobs.

On the plus side, a public hearing has been arranged for parents and teachers and the contracts are currently being renegotiated. But it is still uncertain whether the system will be changed. Perhaps New York's 1.1m schoolchildren need a union of their own.

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Minnesota and Louisiana

Twin states?

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Race, religion and Vikings

LAST weekend, Kathleen Blanco became Louisiana's first female governor. Many outsiders would have been more surprised if the state had elected her Republican opponent, Bobby Jindal, a young American whose family comes from India. The Deep South has long had to live with charges of racism.

But surely not nice liberal Minnesota? Archbishop Harry Flynn, now leader of St Paul and Minneapolis archdiocese, used to minister at the other end of the Mississippi river. As bishop of the Lafayette diocese in Louisiana, he saw aggressive racism—for instance in the white man who refused to extend the sign of peace to a black man, saying he didn't shake hands with “your type”. Yet, when he moved to Minnesota in 1994, he also found prejudice, albeit of a subtler sort.

He heard stories of exclusion, claims of racial superiority, and a growing habit of noting a person's race. And he found some worrying statistics. Black men are 35% of the state's prison inmates, but only 4% of its population. Police stop black and Latino motorists far more often than they do whites.

Earlier this month, Archbishop Flynn put down these worries in a blunt pastoral letter entitled, “In God's Image.” He exhorted Roman Catholics to confront racism: “It has been my observation that racism in Minnesota is no less real and no less serious than that which I experienced in Louisiana.”

The letter has raised hackles. “Get out the hair shirt, the sackcloth and ashes,” read one letter to the Minneapolis *Star Tribune*. “I'm sure glad he came to Minnesota from Louisiana to enlighten us. I might have spent my whole adult life in ignorance of my genetic racism.” But it has also prompted some soul-searching, including worries about the “racist” edge to the criticism hurled at Daunte Culpepper, black quarterback of the Minnesota Vikings, for the team's recent woes.

In truth, any similarity is with California, not Louisiana. Because of immigration, Minnesota's non-white population rose from 6% to 12% in the 1990s. Familiar stories are emerging of schools struggling to teach polyglot students and “racial profiling” by banks. Minnesota is adjusting to this new reality. But the archbishop's letter is a prod in the ribs for a state that assumed it could never be touched by racism.

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Lexington

The politics of rage

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And how it could help keep George Bush in the White House

GEORGE BUSH arrived in the White House promising to change the tone in Washington. He failed to add that it was going to change for the worse. One grizzled political hack, Robert Novak, says that “in 44 years of campaign-watching” he has not seen anything like the Bush-hatred that is currently gripping America. Geoff Garin, a pollster, says that it is “as strong as anything I've experienced in 25 years of polling”.

Bush-hatred is now something that civilised people wear as a badge of honour. In a recent cover-story in the *New Republic*, Jonathan Chait revelled in the fact that he doesn't just hate Mr Bush for his policies. He hates everything about him, from the way he walks (“shoulders flexed, elbows splayed out from his sides”) to the way he talks (“blustery self-assurance masked by a pseudo-populist twang”). “I even hate the things that everybody seems to like about him.” Bush-hating is a fast-growing business, with Michael Moore and Al Franken as its robber barons and every leftish author in the land trying to break into the market.

Forget about fixing Medicare or improving education. To hell with preventing another September 11th. Bush-hatred is the only issue that has succeeded in igniting the Democratic campaign. Howard Dean transformed himself from a no-hoper into a front-runner by bad-mouthing Mr Bush. Now the rest of the Democratic pack is trying to do the same. Dick Gephardt dubs him “a miserable failure”. John Kerry calls for “regime change”.

Many Democrats regard Bush-hatred as their magic key to the White House. Bush-hatred will not only provide the Democratic nominee with the manpower and money he needs to take on an incumbent who will have more than $200m in the bank. It will also drag ordinary folk to the polls in record numbers, determined to reassert good old American common sense over the conservative extremism Mr Bush has foisted on the country.

In fact, the likelihood is that Bush-hatred will actually increase the Toxic Texan's chances of remaining in the White House. Consider the evidence of history. The two presidents who have been subjected to the most vicious vilification in recent times—Richard Nixon and Bill Clinton, both long before scandal struck—were re-elected by landslides. By contrast, one-term presidents such as Gerald Ford, George Bush senior and Jimmy Carter were pitied by their opponents rather than hated.

The similarity between today's Bush-hatred and yesterday's Clinton-hatred is striking. Remember the way right-wingers accused Mr Clinton of drug-running and murder? Bushbodycount.com has compiled a list of people the Bush family has rubbed out, starting with JFK. Remember all the cash Richard Mellon Scaife poured into his “Arkansas project” to get rid of Mr Clinton? George Soros has already spent more than $15m on getting rid of Mr Bush, a cause he describes as “the central focus of my life”. Counterpunch.com compares Mr Bush with Hitler, conceding only that “Bush is simply not the orator that Hitler was.”

Demonising the president is always a risky tactic, since he occupies the position of head of state as well as being the leader of a party. It is a particularly risky strategy with Mr Bush, a man who strikes most Americans as a regular guy, who loves dogs and baseball and mangles his syntax. Mr Bush's personal approval ratings are consistently higher than his job-approval ratings: in one poll in September, the gap between the two was as much as 20 points. Demonising the Toxic Texan may help the Democrats to pile up even more votes in Berkeley; but it is no way to win over floating voters in the South and the suburbs.

The peril of letting actors speak their own lines

Meanwhile, Bush-hatred is dragging the Democrats dangerously to the left, just as Clinton-hatred dragged the Republicans to the right. It is also undermining legitimate criticisms of the president's policies. There are lots of reasons to worry about Mr Bush's record on civil liberties, for example. But when Janeane Garofalo, an alleged comedian, describes the USA Patriot Act (an anti-terrorism act which, for all its faults, was passed by overwhelming bipartisan majorities) as “a conspiracy of the 43rd Reich” sensible people snort with derision. There are genuine arguments against the Iraq war. But does that justify Ted Rall, a cartoonist, encouraging Iraqis to kill American troops?

Bush-hatred has already led the Democrats into making big strategic mistakes. In the 2002 elections, for example, Terry McAuliffe, the head of the Democratic National Committee, decided to make defeating Jeb Bush (thereby avenging the Florida recount in 2000 and wounding the Bush dynasty) the Democrats' top priority. This diverted money from close races in Missouri, Minnesota and New Hampshire without doing anything to harm the younger Mr Bush in Florida, who won by 13 points.

The other reason why Bush-hatred will keep Mr Bush in the White House is that it unifies and galvanises Mr Bush's own troops. Mr Bush has worried fiscal conservatives by letting public expenditure get out of control. He has alienated libertarians with his carelessness for civil rights. He has annoyed social conservatives with his tepid defence of marriage. But the spectre of Bush-hatred will mobilise all these Republican soldiers for battle over the next few months, thereby increasing Mr Bush's freedom of manoeuvre in much the same way that Clinton-bashing helped his predecessor. Just as Democrats were willing to swallow any indignity—even welfare reform—in order to foil “the vast right-wing conspiracy” arrayed against Mr Clinton, Mr Bush's supporters will be willing to tolerate any heresy to defeat Ms Garofalo, Mr Rall *et al*.

Mr Chait ended his article on “The Case for Bush-Hatred” with a sigh of relief: “There. That feels better.” Less than a year from now, the Democrats may learn that there is a big difference between doing what makes you feel good and doing what is necessary to win back the White House.

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Canada's political transition

Martin's turn, at last

Nov 20th 2003 | OTTAWA
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Reuters

The new prime minister wants a new relationship with the United States—and with Canada's own provinces

Get article background

PAUL MARTIN'S long wait, impatiently endured, to become Canada's next prime minister is almost over. On November 14th he was crowned as leader of the governing Liberal Party, with the vote of 94% of the delegates at a convention. Four days later Jean Chrétien, the present prime minister, abandoned his long effort to thwart his former finance minister and unreconciled rival. He agreed to hand over on December 12th, rather than hang on into the new year as he had planned.

After more than a year of enforced circumspection, Mr Martin is at last able to say how he wants to change Canada. He will put more effort than Mr Chrétien into good relations with George Bush's administration in the United States, and with provincial premiers at home.

Mr Martin, a 65-year-old former businessman, is hardly a new face. But he will do his best to convince voters, in an election expected by next summer, that he represents a fresh start. He will spend the next three weeks forming a cabinet, which is likely to include only a minority of Mr Chrétien's ministers. To provide momentum for the election, he may postpone by a fortnight or more the recall of Parliament (prorogued by Mr Chrétien last week until January 12th), and thus of the Speech from the Throne containing his legislative plans.

Mr Chrétien, a man of working-class origins who plays politics by his instincts, curbed government deficits, took a tough line on separatism in French-speaking Quebec, opposed the war in Iraq, got on badly with George Bush, and embraced such measures as decriminalising drugs and legalising homosexual marriage.

Now Mr Martin is expected to lean back to the right. During the leadership campaign, he defined himself partly by his silences on issues such as gay marriage, the Kyoto protocol on climate change (ratified by Mr Chrétien), and cultural nationalism. But he has been explicit about the importance of improving Canada's rather uneasy relations with the United States.

A 16-page policy paper released after the convention sets as a priority “attending to the security of our

shared geography and common border". This will involve developing a domestic security framework to co-ordinate the armed forces, police, intelligence and other agencies to deal with threats of terrorism—in effect a counterpart to America's Department of Homeland Security. Mr Martin plans a special cabinet committee to oversee Canadian-American relations, which he will chair.

A 50-strong group of Canadian and American military commanders is already making plans to co-operate against possible terrorist threats ranging from nuclear bombs on container ships to attacks on power grids. These plans may include an integrated maritime command. But Mr Martin has ruled out a joint immigration policy for border security.

The other thing he wants to change is federal-provincial relations, always a battleground in Canada. Mr Chrétien kept a wary distance from the provincial premiers. Mr Martin's first act as party leader was to fly to Saskatchewan to meet them all. They backed a planned national health council. The election this year of Liberal governments in Quebec and Ontario helps co-operation. So does the promise by Mr Chrétien of dollops of new money for health care, a headache for the provinces. Mr Martin's soft-pedalling over implementation of the Kyoto protocol goes down well with Ralph Klein, the abrasive Conservative premier of oil-rich Alberta.

Mr Martin has also hinted at ways in which he may try to please his party's left. Whereas Mr Chrétien often bullied his parliamentary caucus, the new leader promises more debate, and more free votes, to address a "democratic deficit" in Parliament. He invited Bono, a rock singer, to speak to the Liberal convention, and seems to favour his pleas for further debt relief and increased aid for Africa.

The big test will be how Mr Martin handles competing demands on the public finances. As finance minister, he cut taxes and the federal debt. He is pledged to do more of both. But he would find it hard to reverse increased health spending, even if he wanted to. He also wants to help Canada's cities, whose roads and services are deteriorating, by turning over to them a generous slice of petrol-tax revenue.

Plenty of contradictions lie ahead for the new leader. How he handles them will decide whether his premiership is merely a bland coda to Mr Chrétien's decade of dominance, or opens a vigorous new era of Liberal-led reform.

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Mexico's economy

Food for argument

Nov 20th 2003 | MEXICO CITY
From The Economist print edition

The rights and wrongs of taxes

Get article background

TWO years ago, in the first flush of his presidency, Vicente Fox made overhauling Mexico's inadequate tax system his first legislative priority. His proposed reform was duly mauled in the opposition-controlled Congress. Now he is trying again, but his latest plan seems likely to suffer the same fate.

The proposed tax changes are contained in the draft budget for 2004. The main one would cut the rate of VAT from 15% to 10%, but levy it on everything, including food, medicines, books and newspapers, that is currently either zero-rated or exempt. Nobody disputes that the government needs to raise more money. Tax revenues total just 12% of GDP (the government milks a further 4% of GDP from the state oil monopoly). This is low by Latin American standards, let alone those of rich countries, where the average is 37%. Schools, roads and health care suffer.

Officials argue that the most effective way of remedying this is to increase the yield from VAT. According to Gustavo Madero Muñoz, who chairs the finance committee of Congress's lower house, almost half of all goods sold in Mexico attract no tax. By applying the new flat rate to everything, the government hopes to raise $10 billion in extra revenue, or almost 2% of GDP. The sum might be even higher: by simplifying collection, the change would cut down on chronic fraud and evasion.

Opponents cry that this would hit the poor more than the rich. Rubén Mendoza, a congressman from Mr Fox's conservative National Action Party, concedes that the change might be “necessary, but is certainly not popular.” But he points out that the government itself buys 60% of medicines, and distributes them to the poor, while the middle classes, who buy the rest, can afford the tax.

That cuts no ice with the formerly ruling Institutional Revolutionary Party (PRI), which has the largest block of seats in Congress. In a mid-term election in July, it campaigned against levying VAT on food and medicines. This week it reiterated its opposition. Instead, it floated the idea of a 10% tax on the production of food and medicines, though the details were not clear.

To cover itself, the government has inserted another innovation in the budget, one borrowed from the United States. A sales tax of 2%, on everything except food and medicines, would be administered by the federal government, but the proceeds (perhaps $3 billion) would go to local government. Since a majority of the state governors are from the PRI, this should have an easier passage. Eventually, states might set their own sales taxes. The PAN insists that the sales tax will be palatable to the public only if VAT is cut from 15% to 10%. But the PRI may take a different view.

The tax row bodes ill for other proposed reforms, such as measures to open up energy supply to private investment, which the government sees as vital to lift Mexico's economy out of three years of stagnation. Disheartened investors sold Mexican shares this week. Mr Fox insists that all is not yet lost. But much haggling lies ahead if the president is to come out with even half a loaf—with some sort of tax payable on it.

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Guns in Brazil

Disarming

Nov 20th 2003 | SÃO PAULO
From The Economist print edition

A law that might save many lives

Get article background

GUNS may not be as ubiquitous in Brazil as they are in the United States, but they cause more mayhem. More than 1% of the population of São Paulo has suffered a bullet wound, according to one survey. Rio de Janeiro's slum *favelas* are ruled by drug lords and policed by gun-toting adolescents. With 3% of the world's population, Brazil accounts for 8% of its deaths by firearms, about 40,000 a year.

Unsurprisingly, three-quarters of Brazilians favour banning the sale of guns, according to a recent poll. They may get their way. Under one version of a bill in its last stages of consideration in Congress, Brazil will hold a referendum on whether to ban gun sales in October 2005 (another version does not specify a date). The law would also make buying a gun harder and stiffen penalties for infractions. It will be the toughest measure against violence since Luiz Inácio Lula da Silva became Brazil's president in January.

At the moment, gun control is casual. Most non-criminal adults can register to buy one. Unregistered holders face only a fine or, at worst, confiscation. Of the estimated 15m-25m guns in Brazil, only 5m are legal. Many are smuggled in from Paraguay and Bolivia.

Brazil has no equivalent of America's National Rifle Association, but the status quo has powerful backers. These include Taurus, a firm which makes 85% of the handguns sold in Brazil; “collectors”, some of whom feed guns to the illegal market; and some army officers and policemen and their friends in Congress. Their argument: until the police can defend them, citizens should be able to defend themselves. “I want disarmament,” says João Alberto Fraga Silva, a congressman and police colonel, but first “we need the disarmament of the bandits.”

Proponents of the bills argue that controlling the black market starts with regulating the legal one. The new law lifts the minimum age for buying a gun from 21 to 25 and obliges would-be owners to pass a psychological test. Carrying a gun illegally will be punished with jail. Guns will be accounted for more strictly. Manufacturers will have to send to the federal police ballistic records of each gun they make. “People will start to take care about preventing diversion to illicit circles,” hopes Pablo Dreyfus of Viva Rio, a civic group.

How effective any law might be depends partly on the Senate, which has the final say. But it will also depend on enforcement. That will be largely in the hands of the state governments and their “military police” forces. These are often corrupt and brutal; their own weapons wind up in the hands of criminals with alarming frequency. Nothing in the new law will suddenly equip them to disarm the teenage armies in the *favelas*.

That is not the point, say the law's backers. The hope is that making guns harder and more expensive to obtain will discourage casual murder. Some 70% of murders are committed by ordinary people for “banal motives”, because they happen to have a gun handy when they get angry, says José Vicente da Silva, a security consultant. He reckons the new law could cut shooting deaths by 5%, saving 2,000 lives a year. How many laws do that much good?

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Venezuela's courts

No justice

Nov 20th 2003 | CARACAS
From The Economist print edition

Hugo Chávez takes on the courts

Get article background

ALL is far from well in Venezuela's courts. Last month hidden microphones were discovered at the Supreme Tribunal. Then state television broadcast an ostensibly compromising video involving one of the tribunal's justices, who is said to be friendly with the opposition to President Hugo Chávez. Another court, known as the First Court for administrative disputes, whose job was to adjudicate cases concerning the government, has been summarily shut down by a "judicial restructuring commission", and its judges fired.

What lies behind all this? For Mr Chávez, a messianic populist, the answer is judicial wrongdoing. He has often said that 80% of judges are corrupt. He may not be far wrong. But, if so, his own government is partly to blame. After Mr Chávez was first elected in 1998, his government redesigned the judicial system from top to bottom, evaluating each judge and sacking many of them.

For the opposition, the goings-on in the judiciary have a different explanation. Some judges apply the law without regard to the wishes of the government. That was true of the First Court, whose status, despite its name, is second to that of the Supreme Tribunal. Now, pending cases against the government will remain pending—unless and until the tribunal sets up a new court to replace it.

Several rulings by the First Court had irked Mr Chávez. It upheld an argument by the medical association that Cuban doctors—sent as volunteers by Fidel Castro—should not be allowed to practise in Venezuela without a review of their qualifications. The government, which has promised to put a Cuban medical team in every poor neighbourhood, has refused to abide by the ruling. Globovision, a rabidly anti-Chávez television news channel, claims that the defunct court was poised to order the government to return microwave-transmission equipment confiscated from it last month. It was also in line to handle some matters concerning an opposition proposal for a recall referendum on Mr Chávez.

This will now be the preserve of the Supreme Tribunal. It seems fairly evenly split in its political loyalties. But the government is trying to use its slender majority in the National Assembly to push through a bill which would allow it to add 12 new judges to the 20-strong tribunal.

The tribunal, says the government, is overworked. The opposition denounces the bill as a naked attempt to pack the court. It has staged a filibuster, so far successfully. So Mr Chávez's supporters are changing the parliament's rules to restrict the number of speakers in a debate. Meanwhile, conspiracies abound in the tribunal. As well as suffering hidden mikes and video spies, it recently recanted a ruling issued in its name which would prevent Mr Chávez from standing in any post-referendum election, saying that it was a forgery.

Some supporters of Mr Chávez point out that past governments in Venezuela could count on politically pliant courts. So why not this one? Opponents have long mistrusted Mr Chávez's efforts to concentrate power in his own hands. They fear that he wants to rule as an elected dictator. So far, those fears have proved exaggerated. If the court-packing bill is passed, they would look justified.

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Ecuadorean time

The price of lateness

Nov 20th 2003 | QUITO
From The Economist print edition

Calling time on a national vice

Get article background

PUNCTUALITY is not a Latin American comparative advantage. Now, Ecuador is trying to make up for lost time. Last month, Jefferson Pérez, the country's Olympic walking champion, fired the gun on a national punctuality campaign. Even the president, Lucio Gutiérrez, turned up for the launch, though at the last minute. His government is backing the campaign, in which posters have been handed out to offices and schools berating Ecuadoreans for wasting other people's time.

Hundreds of institutions ranging from local councils to airlines have signed up to a promise to keep to time. Stragglers are barred from entering meetings. Hotel-style door signs have appeared in offices and schools. On one side, they say “Come in: You're on time'' and on the other “Do not enter: the meeting began on time.'' A local newspaper is publishing a daily list of public officials who turn up late to events.

Participacíon Ciudadana, the civic group behind the campaign, reckons that lateness costs Ecuador $724m (or 4.3% of GDP) each year. Cinemas, football matches and church ceremonies generally begin on time. But more than half of all public events start late. Government is the worst offender. Two out of three appointments at the Ministry of Education are said to start late. The more (self-) important the official, the more unpunctual he tends to be. Social events are no better.

The campaign is having an effect. Mr Gutiérrez, who habitually turned up several hours late to meetings, has cut that to a few minutes. Businessmen also say that meetings are running closer to schedule. Many Ecuadoreans agree that it's time for a change. Earlier this month, the 22 contestants at a beauty contest in Guayaquil, Ecuador's largest city, were left to wait for two hours, propping up their hair while their make-up melted, until a local official showed up to open the event. “If it had been a date, I wouldn't have waited more than an hour,” fumes Tahiz Panus, the runner-up. Ecuadorean men have been warned.

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Correction

Correction: El Salvador's income per head

Nov 20th 2003

A chart in our story on the Latinobarómetro poll ("The stubborn survival of frustrated democrats", November 1st) showed El Salvador's income per head in 2002 in purchasing-power parity terms as around $1,000. In fact, it was $4,570. Sorry.

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India

The parties flex their muscles

Nov 20th 2003 | DELHI
From The Economist print edition

In training for the big match next year

Get article background

ELECTION fever is almost a permanent condition in India. But an imminent series of state elections is being followed with even more than usual interest across the country. Not only does it cover some big and important states. The results will also provide a pointer to the timing of the general election that has to be held by October next year, as well as to the plans and prospects of the competing parties.

The first poll, on November 20th, is in the small north-eastern state of Mizoram. But it is the four that follow, on December 1st, that have national significance: in Rajasthan, Madhya Pradesh, Chhattisgarh and Delhi (not a full state, but the “national capital territory”). All are in India's Hindi-speaking heartland, where nearly half of the country's billion people live and where most general elections are decided.

Moreover, all four states are held by the Congress party, which, at the national level, forms the main opposition to the ruling coalition led by the Bharatiya Janata Party (BJP); and in each case, unlike in many states where regional or caste-based parties are important forces, the battle is between Congress and the BJP. So these elections, in one sense, mirror next year's national poll. This is why the independent election commission upheld a complaint against a national advertising campaign by the BJP boasting of India's “shining” recent achievements.

The commission has had local difficulties to deal with, too. In Chhattisgarh, the state administration has proved chronically partisan, stooping even to the distribution of school bags decorated with pictures of the chief minister. Similarly, in Madhya Pradesh, the commission ruled against measures by the state government exempting large numbers of people from paying for electricity.

Despite the perks of being in power, an abiding feature of Indian elections is the “anti-incumbency” factor. Almost every Indian government disappoints most voters, and suffers some electoral consequence. In these four states, however, the picture is more complicated. First, the “incumbency” burden is shared by Congress, locally, and the BJP at the national level. Second, it may this time be an advantage. An abundant monsoon, bringing relief and modest prosperity to drought-plagued areas, has lifted optimism about India's economic prospects higher than for several years. Government and private forecasters agree that the economy is likely to grow by 7% or more this fiscal year, ending next March.

Such complications may make it hard to judge which party, at the national level, has actually won these elections. The BJP's spokesman, Mukhtar Abbas Naqvi, stalwartly predicts a clear-cut victory for his party in all four. That, however, seems unlikely. In Delhi, opinion polls put Congress far ahead. One Congress leader claims that, fighting the incumbency handicap, three wins out of four would constitute an “extraordinary” success.

“The weak link in the chain”, in his words, is Madhya Pradesh. There, the Congress chief minister, Digvijay Singh, has served two five-year terms already. The BJP candidate to replace him is Uma Bharti, a former government minister and a leading light in the campaign that culminated, 11 years ago, in the demolition of a mosque in the town of Ayodhya. That campaign, to build a temple to the Hindu god Ram on the site, was the BJP's springboard to national power. The 1992 riot also led last month to charges being filed against Miss Bharti for her involvement.

But in neither Madhya Pradesh nor elsewhere have Ayodhya and the other “cultural” issues that make up the BJP's Hindu-nationalist agenda played a big role in the election campaigns. Last month an attempt by groups linked to the BJP to revive the Ayodhya movement fizzled out. In Madhya Pradesh, it was Mr Singh who raised another “Hindu” demand for a national law banning the slaughter of cows, which Hindus regard as holy. “The desperate tactics of a loser”, snorts Arun Jaitley, the government minister managing the BJP's campaign in the state.

Victory in Madhya Pradesh would be a great encouragement for Mr Jaitley and Miss Bharti as the BJP prepares for a generational shift from the leadership of Atal Behari Vajpayee, the prime minister, and his deputy, L.K. Advani, both septuagenarians. In Congress, too, successful state chief ministers, such as Mr Singh or Rajasthan's Ashok Gehlot, may emerge as potential national leaders. In that sense, a clean sweep for Congress might not be entirely good news for its leader, the Italian-born Sonia Gandhi.

A BJP landslide, on the other hand—or at least victories in the big states of Madhya Pradesh and Rajasthan—would increase pressure on Mr Vajpayee to call an early general election, and not risk having to face the consequences of a failed monsoon next summer. But Mahesh Rangarajan, one of the best-known political analysts in the country, thinks that is unlikely, for three reasons.

The BJP has still to work out what it wants to do in India's biggest state, Uttar Pradesh. Second, Mr Vajpayee wants his place in history as the first non-Congress prime minister to serve a full five-year term. Third, on November 14th, Chandrababu Naidu, the chief minister in another state, Andhra Pradesh, called for an early election, partly to pick up the sympathy vote after he narrowly escaped a terrorist assassination attempt last month. Mr Naidu's Telugu Desam Party is an important ally of the BJP in the central government. Its campaign for a state election that probably cannot be held before next March provides the cautious Mr Vajpayee with yet another reason to wait and see.

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Philippines

Playing dirty

Nov 20th 2003 | MANILA
From The Economist print edition

Politics gets ugly

TO JUSTIFY her planned retirement next year, Gloria Arroyo once said that her continued involvement in politics "could only result in never-ending divisiveness". How right she was. As soon as she changed her mind and declared in early October her intention to run for a second term as president, Philippine politics took a nasty turn. Opposition congressmen dropped all other business to press for the impeachment of the Supreme Court's chief justice, an ally of Mrs Arroyo. A rival presidential candidate has accused Mrs Arroyo's husband of corruption, only to be accused himself of murder by government prosecutors. As Jose de Venecia, the speaker of the House of Representatives, puts it: "This is not conventional opposition. This is poisonous politics of the worst kind."

What is it about the diminutive former academic that causes such acrimony? Much of the bad blood dates from Mrs Arroyo's peculiar rise to the presidency in 2001. She was not elected. As vice-president, she assumed the office when protesters ousted her predecessor, Joseph Estrada, who is now on trial for corruption and still maintains that he is the rightful president. For the past three years, Philippine politics have degenerated into a protracted feud over the rights and wrongs of this muddled transfer of power. The opposition attacks Hilario Davide, the chief justice, in part because he swore her in as president amid the tumult of 2001.

Mrs Arroyo's indecisiveness—not least over whether or not to run again—has compounded her problems. She has tried at different times to reinvent herself as a technocrat, a populist and a champion of law and order. She has churned through five heads of the armed forces in less than three years. And after hectoring the courts for months to show Mr Estrada no mercy, she recently announced that she was happy for him to travel overseas, in the middle of his trial, for a knee operation.

Others suspect deeper trends behind the rough-and-tumble. Alex Magno, who runs a local think-tank, argues that political jockeying has grown sharper as electioneering has become more expensive. He estimates that a serious contender needs 2 billion-3 billion pesos ($35m-55m) to run for the presidency. The candidates therefore compete for money, often from suspect sources, and thus lay themselves open to ever more eye-popping charges of corruption. Illegal gambling bosses are said to have bankrolled Mr Estrada—an allegation he denies.

Mr de Venecia, for his part, blames the bickering on a curiosity of the country's bicameral legislature. The 24 senators, he points out, are all elected from a single, nationwide district and therefore see themselves as natural presidential candidates. When elections draw near, he gripes, they stop making laws and start grandstanding. And so they have. The election is still six months away, but the wheels of government have almost ground to a halt. Fourteen laws passed by the House of Representatives still await the approval of the Senate. A new fiscal year begins on January 1st, but many lawmakers doubt that a budget will be ready in time.

But the biggest fear is that the current rancorous deadlock will last beyond the election next May. On that score, at least, the outlook is brighter. The politicians may not have got over the events of 2001, but the voters seem to have done so. They tell opinion pollsters they are most concerned about the economy. If Mrs Arroyo wins (as currently expected), she would have a much clearer mandate the next time round. And a fresh six-year term might give her time to do all the things she promised during her first three years in office.

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AIDS in China

A saving embrace

Nov 20th 2003 | BEIJING
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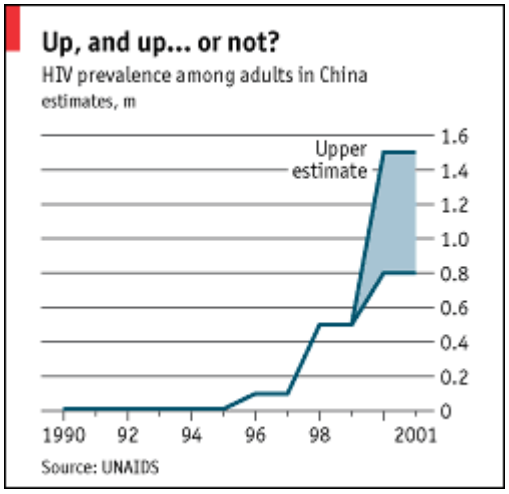
Is China ready for a new AIDS policy?



Becoming an open secret

AFTER speaking in Beijing at a conference on HIV/AIDS earlier this month, America's former president, Bill Clinton, put his arm around Song Pengfei, a young Chinese AIDS patient, and smiled for the cameras. It was a simple yet potent gesture, but one that China's own leaders have so far been unwilling to make. Until that changes, says the country's small but growing community of anti-AIDS campaigners, China stands little chance of warding off its looming crisis. But a few signs indicate that the Chinese authorities may be willing to change their approach.

One campaigner, Li Dan, points out that, whereas leaders in many countries have given high priority to the issue, China has so far been behaving more like South Africa, whose leaders downplayed the problem for years and are now struggling to cope with one of the highest infection rates in the world. In 1990, around 1% of adults in both South Africa and Thailand were infected with the HIV virus. Tackling the problem head on, Thailand has managed to keep the rate at roughly the same level. By 2001, however, South Africa had pulled its head from the sand to find that its own rate had sky-rocketed to nearly 25% of adults, according to figures from the United Nations.

Foreign experts believe that China now faces a decision about which route it will follow. “Unless China acts decisively, it will find itself on an African trajectory, just 15 years behind. In Africa, governments and businesses are looking back at what they should and could have done. In China, there is still time to avert the worst-case scenario,” John Ruggie, director of Harvard University's Centre for Business and Government, said at another AIDS conference held this month in Beijing.

The mere fact that so many conferences are taking place is one indication that China is shifting its approach. Until last year, it kept on reporting unrealistically low numbers of cases and stubbornly insisted on battling the epidemic on its own. But it is now welcoming the participation of foreign experts and is edging closer to accepting outside estimates on the scope of the problem. Speaking at one of the recent Beijing conferences, Dr Shen Jie, the director of the National Centre for HIV/AIDS Prevention and Control, admitted that the country urgently needs foreign assistance—not least, she implied tellingly, in the form of believable statistics.

The UN reckons the prevalence of HIV infection among China's adult population now stands at around 0.1% but says that, on current trends, the country may have some 10m infections and 260,000 children orphaned as a result of AIDS by 2010. Transmission, which had until recently been most common among drug users and because of shoddy blood-collection practices, is now spreading among sex workers and the rest of the population. China's outbreak of SARS earlier this year has helped to bring attention—and resources—to its disease-control and surveillance systems. But it has also exposed the vulnerabilities of those systems.

AP

Becoming an open secret

Mr Li, who has established an orphanage in hard-hit Henan for children who have lost their parents to AIDS, acknowledges recent progress. But he adds that, until China's leaders give sustained and prominent attention to the issue—maybe even publicly putting an arm round an AIDS patient—the necessary “basic change” in the official response will not materialise. If it does not, he fears that patients will remain stigmatised, and local officials will continue to work harder at hiding the problem than at solving it.

For the moment, the signals remain mixed. Officials in Henan province are allowing Mr Li's work to proceed at the orphanage. But, when he attempted to conduct an AIDS survey in the province in late October, he was detained by the local police and warned that information about AIDS is still a “national secret”.

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Australia

Unwanted

Nov 20th 2003 | SYDNEY
From The Economist print edition

Another hard test for a controversial refugee policy

Get article background

THE Tiwi people of Melville Island, 80 km (50 miles) off Australia's north coast, had an unexpected disturbance in their sun-drenched lives on November 4th, when the *Minasa Bone*, a rickety Indonesian fishing boat with 14 Kurds on board, came to land. Melville Island is part of Australia, and the Kurds, originally from Turkey, were seeking asylum. The drama of their voyage soon paled against that of the Australian government's determination to get rid of them, and raised questions once again about Australia's human-rights record when it comes to refugees.

The conservative coalition government, led by John Howard, moved quickly to separate Melville Island—and 4,000 other islands—from Australia for migration purposes, the first time this has been done since the country became self-governing 102 years ago. The government made the regulation retroactive to when the Kurds landed. It then ordered an Australian warship to tow the *Minasa Bone* out to sea and send it towards Indonesia, where it landed a few days later on the island of Yamdena.

Alexander Downer, Australia's foreign minister, and Amanda Vanstone, the immigration minister, said that the Kurds had never claimed asylum in Australia and that their expulsion had been undertaken with the help of the Indonesian government, to which they extended their “warm thanks”. A government task-force, however, later revealed that the Kurds had indeed asked to stay. One told Australian officials that returning to Turkey was “no good”; another, armed with an English-Turkish dictionary, pointed to the word “refugee”. In addition, the Indonesian government said that its agreement to the Kurds' expulsion was “not sought, nor was it given” and accused Australia of using its neighbour as a “trash bin”.

The incident revived memories of a similar event in 2001, when Mr Howard won an election on the issue of “border protection” after he ordered armed troops to stop a Norwegian cargo ship, the *Tampa*, from landing with 433 asylum-seekers it had rescued from the sea off western Australia. Playing on public fears after the September 11th terrorist attacks on the United States, his government suggested that such refugee boats could be harbouring terrorists, and accused uninvited arrivals of being queue-jumpers.

The United Nations High Commissioner for Refugees says that Australia's excision of Melville and other islands is “meaningless”, since its obligations as a signatory to the UN refugee convention apply to its entire territory. Australia, the organisation says, has set a “negative worldwide precedent”. Some constitutional experts have also suggested that the government's decision is unlawful. Recent government figures have raised doubts about the “terrorists-in-boats” argument. Of 9,160 asylum-seekers who arrived by boat between 1999 and mid-2002, most from Afghanistan and Iraq, 90% were found to be genuine refugees and were issued with temporary protection visas.

None of this seems to worry Mr Howard, who suggested on November 14th that the political ends of the action against the Kurds justified his government's fudging of the details. “It's quite irrelevant, it doesn't really matter,” he said of the Kurds' claim for asylum. “At the time...the islands had been excised.”

A Just Australia, a refugee-supporting group born from the *Tampa* affair, is calling for a review of a

Darwin supreme court decision which dismissed a *habeas corpus* action brought on behalf of the Kurds before they were towed away. The opposition parties who control a majority in the Senate, the upper house of the federal parliament, say they will disallow the excision regulation when parliament resumes on November 24th. It will all be too late for the Kurds, however. Indonesia, not a signatory to the refugee convention, is planning to send them back to Turkey.

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Prostitution in Cambodia

The children in Gucci shoes

Nov 20th 2003 | KRONG KOH KONG
From The Economist print edition

The grisly results of human trafficking

THE United States classifies countries that allow human trafficking into three “tiers”. Cambodia is in tier two, which means pretty nasty. It is unlikely that the teenage prostitutes in the town of Krong Koh Kong in southern Cambodia are aware that bureaucrats in Washington may be concerned for them. Their world is very small: a row of shacks on a dusty road at the outskirts of the town, with red lights outside to advertise their business. The girls' knowledge of the hazards of their trade seems even smaller.

A Vietnamese girl, aged 17, has lesions on her skin, a symptom of AIDS. She traces them with her fingertips and says they are the result of a disease caused by the local water. She and others who have similar markings use a local traditional medicine to try, without success, to clear them up.

Krong Koh Kong, it has to be said, is at the lower end of the sex trade. But when a number of brothels in Phnom Penh, the capital, were raided after complaints about human trafficking, the sex bosses moved some of their business out into the provinces. Krong Koh Kong, whose respectable business is fishing, seems to be unpoliced, and the porous Thai and Vietnamese borders makes things even worse.

The town attracts custom from a wide area because sex there is cheaper than in Phnom Penh, and very much cheaper than in neighbouring Thailand. The girls, some of them children aged only 14 but looking older in their heavy make-up and fake Gucci sandals, charge the equivalent of $2 or $3, half of which goes to their boss. A girl can make about $25 a week, a relatively big sum in an area of widespread poverty and unemployment. Traffickers seem to have no trouble finding staff, often offered as debt repayment.

It is human trafficking of a most cynical sort. The girls will be discarded when they become too ill to work. During their short working lives many will be spreading AIDS. The United Nations says that in 2001 170,000 people in Cambodia had HIV. About 2.7% of adults were infected.

Some observers say that the United States has been soft with Cambodia over trafficking. Employing young girls in the sex business amounts to slave labour, they claim. Under America's trafficking law, it is argued, Cambodia should be reclassified in tier three—very nasty. Countries in tier three can be punished under American law with sanctions. Politics seems to have played a part here.

The countries now in tier three, such as North Korea and Myanmar, are already in trouble with America. But some Asian countries thought to be soft on trafficking, among them Indonesia, the Philippines and Thailand, are anti-terrorist allies of America and as a result may have slipped the noose of sanctions into tier two. In America's most recent human-trafficking report, published in June, Cambodia and Thailand were given an apparent pat on the back. “The governments recognise the problem,” the report mumbled.

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Afghanistan

The pains of motherhood

Nov 20th 2003 | CHAGHCHARAN
From The Economist print edition

Giving birth in Afghanistan

HALF of Afghanistan's hospital beds are in Kabul. They are gruesome enough. Enter the provinces and it gets worse. Most people there have no access at all to medical care, but the women are the worst off.

Their worth is measured in fertility; the more children (read boys), the better. So rhythms in villages remain medieval: girls engaged at ten, married at 12 and giving birth from 14 through to their menopause. According to a study by America's Centres for Disease Control, parts of Afghanistan have the highest rates of maternal mortality ever recorded. In remoter provinces the rate is 500 times higher—6,500 deaths per 100,000 live births—than in developed countries. “Women will suffer everything to have a child,” says Dr Noosh Dolati, a gynaecologist who serves as the only woman doctor in Ghowr province.

Médecins du Monde, a front-line medical aid organisation, is working with Ms Dolati and four trainee midwives to reduce the risks of pregnancy. It isn't easy. Traditional midwives are dangerously ignorant. Some refuse to tie umbilical cords, so that “dirty” blood can flow from the baby. Others seek to cure infections by placing dead mice—and other treats—in the vagina. Many insist babies be born into a bowl of dirt. Tetanus contracted by new-borns from the dirt is dismissed as demonic possession. The cure, all agree, are the amulets sold at a tidy profit by the local mullah.

Hospital is the last choice. Simply getting there is a nightmare. Consider a recent case of a woman from an isolated village. “The baby was breached in a shoulder position,” explains Dr Dolati. “The traditional midwife told the father she was not strong enough to pull the baby out. So the father reached in, found the arm of the baby and pulled as hard as he could. But the arm came off in his hand. The rest of the baby remained in the womb.” It took four days—by donkey and pitching car—for the mother to reach hospital. “By then, the baby was dead and the mother lost her uterus.”

The hospital in Chaghcharan is much better since Médecins du Monde undertook to rebuild and supply it; in Taliban times it lacked medicine and had no gynaecological section. But it still offers only the most basic care. It has no blood bank and no way of testing for blood groups. Caesarean sections for women who arrive after days of bleeding are life-threatening. But so is the alternative.

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The future of Iraq

First give them power of a kind, then let's discuss democracy

Nov 20th 2003 | BAGHDAD
From The Economist print edition

AFP

Iraq's American rulers have decided on a drastic revision of their political plan for the country. It has got a mixed reception

Get article background

ONE big reason the Americans gave for the war in Iraq was to bring democracy to the Iraqis. Now Paul Bremer, the Americans' viceroy there, has agreed to hand power to Iraqis before holding an election. Does this mean it will be as hard, nay impossible, for the Americans to bring democracy to Iraq as it has been, so far, to find those weapons of mass destruction?

Many suspect that the Americans, faced with an intensifying guerrilla war, are simply preparing a strategy for a speedier exit. Under Mr Bremer's original seven-stage plan, he was to run Iraq until it had first a constitution and then an elected government of Iraqis, who were not expected to take over until 2005 at the earliest. But Mr Bremer's blueprint became ensnared in arguments over the shape of the constitution and the timing of its birth, with Iraq's Shia majority clamouring to elect delegates to draft a document which the country's Kurdish and Sunni Arab minorities feared would hurt their rights.

Now, according to an agreement on November 15th with the 25-strong Iraqi Governing Council (an American-appointed body of Iraqis which has hitherto lacked real power), the political and constitutional processes would be decoupled. Mr Bremer is to cede sovereignty to an indirectly chosen provisional government by next July. The task of holding an election for a constitutional assembly—and later for a government—is left until 2005.

Should Mr Bremer have shied away from the ballot box? Some argue that the Americans would set the region a better model for democracy if they handed over to an elected, rather than selected, provisional government. But unless security were to improve sharply, it would have been hard to be confident of holding a fair poll. How many car bombs outside polling stations would it have taken to scupper an election? There were fears, too, of what might happen in an early election—the prospect, for instance, of Iraqis voting for an anti-American government made up of Arab nationalists and Islamist radicals.

Instead, Mr Bremer's ruling Coalition Provisional Authority (CPA) has agreed that representatives selected by the Governing Council and by local councils across Iraq should choose the members of a national

assembly that in turn would select a provisional government with real powers far sooner than earlier envisaged. That, says the CPA, means fostering “grass roots” to help educate people in a “bottom-up democratic process” in a country numbed by 40 years of totalitarian rule. Some Iraqis, however, suspect the Americans will simply hand-pick a national assembly made up of carefully screened pro-American notables and will then go on pulling the strings. That would be no more a model of democracy than in Iraq's neighbours, such as Iran and Jordan.

Plainly, the new ground rules have no popular mandate. Under the agreement, the Governing Council, “in close consultation with the CPA”, will decree a “basic law” by February to spell out just how the constituent assembly's members will be chosen—and how many delegates each of Iraq's 18 ethnically and religiously distinct governorates will have. The basic law will also, in effect, provide for a fixed interim constitution, which, among other things, will stipulate the extent of federalism and the role of religion in state affairs, until a new constitution is ratified by a plebiscite.

In addition, the Governing Council will be empowered to negotiate treaties giving “wide latitude” for American forces to stay in Iraq—as “allies” rather than “occupiers”; the Americans reckon on keeping their military bases, much as they have done in Germany and Japan. And, despite the formal handover, the Americans will still hold the purse strings by virtue of the $18.6 billion recently earmarked by Congress for Iraq's reconstruction and for its capital budget. The provisional government will have to use its oil revenues to pay for government salaries.

Now sell the new version

Will this be enough to win international acceptance? Some Iraqis say that Mr Bremer wants to give an impression that the Americans are ending their occupation without actually handing over power. The United Nations is still not running the show, though the Americans may seek a new Security Council resolution to endorse the latest blueprint. But until that happens, and as long as American armoured vehicles roam through Baghdad, sceptics will call Iraq's government an American puppet.

Some Iraqis are champing at the bit. Getting back sovereignty, says Adnan Pachachi, a member of the Governing Council, means that Iraq should have the right to sign defence treaties with whatever country it wishes to. Shia clerics, refashioning themselves as democrats, have been irked by Mr Bremer's delay in moving towards majority rule under an elected government. Ali Sistani, the Shias' grand ayatollah whose *fatwas* demanding an elected constitutional assembly helped stymie Mr Bremer's original plan, has yet to pronounce on the revamped plan.

Still, for all this carping, the plan has reinvigorated Iraqi politics. Those previously left out of the Governing Council, which is dominated by returned exiles, are abuzz with fresh hope. Sunnis, many of whom feel they have been pushed to the margin, now hope for a bigger chunk of seats in the national assembly. Sharif Ali, a Hashemite monarchists' candidate to be king, who rejected the previous plan, is back on board. A young Shia firebrand, Muqtada al-Sadr, has turned remarkably pliant, conscious that a quarter of Iraqis live in Baghdad, and at least half of those in his heartland in the city's poor east.

If the new plan is a carrot, the Americans still wield a stick. They have arrested some 60 of Mr Sadr's senior disciples. Their aircraft have increased the bombing of targets in Sunni towns. American guns can be heard at night in Baghdad, shelling suspected rebel hideouts in an operation known as Iron Hammer.

The latest turnabout is a setback for Mr Bremer. He has now had to junk or refashion three big policies: the over-drastic deBaathification of Iraq, which meant that Iraq was denuded of competent civil servants; the wholesale disbanding of the armed forces, which put several hundred thousand embittered Iraqis on to the streets and provided fodder for the resistance; and now the tearing up of his original plan for a slow but steady drive towards a new constitution, only then to be followed by a handover of power to Iraqis. For Iraq, as well as for its American proconsul, this has to be third time lucky.

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Anti-Semitism

An enduring virus

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Why Jews, in Israel and beyond, still feel beleaguered

Get article background

“THE Jewish people cannot be broken,” Ariel Sharon, Israel's prime minister, assured a cheering convention of 3,500 American Jewish activists in Jerusalem on November 16th. “Our enemies have yet to understand this.” Mr Sharon was speaking a day after powerful car bombs exploded outside two synagogues in Istanbul during prayers. At least 25 died: six Jews, the rest Muslims. Israel sent its own aid workers, well-schooled in such operations, to search for bodies in the rubble. Mr Sharon said the double attack was part of a pattern. “During the last few years our enemies have risen up against us: here in Israel by murderous terror attacks—and all over the world.” The audience, delegates to the annual general assembly of the United Jewish Communities of North America, were in grim accord.

The world according to Mr Sharon is an increasingly terrifying place for Jews. Visiting Italy the next day, he spoke of “a great wave of anti-Semitism” comprising both old-style hatred of Jews and “a hatred of the Jewish collective—that is, the state of Israel”. On the day of the Istanbul bombs, he noted, a Jewish school had been set on fire in a suburb of Paris, the latest in a series of anti-Semitic incidents in France. The Israeli right has always cited anti-Semitism, ancient and modern, Christian and Muslim, as grounds for its tough tactics. “The whole world is against us” is a frequent refrain among Jews who have settled in the West Bank. So what is the point, the argument runs on, in making risky concessions to the Palestinians, when they and everyone else will carry on hating us?

EPA

Unsafe in Istanbul

Israeli moderates have a less deterministic view of the Jewish condition. In the dark past, they argue, the Jew was the passive victim of an essentially irrational malice. Today, the Jewish state can affect its own fate and the attitudes of others towards Israel and towards Jews elsewhere. Israel's repression of the Palestinians does not, argues the Israeli left, itself create anti-Semitism, which in some societies is latent and lurking. But it can exacerbate it. Conversely, the Oslo accords of 1993, which many thought would herald peace between Jews and Arabs, fostered pro-Israeli sentiment abroad. Several Arab and Muslim states set up diplomatic ties with Israel. Now, however, the Palestinians' latest *intifada*, which began three years ago, has reversed that progress.

In any event, the notion that Jews are inescapably destined to be victims resonates widely among American Jews, though their thriving community, more than 5m-strong, probably suffers less anti-Semitism than any in the diaspora. But American Jewry is haunted by the Holocaust, especially by its own ineffectual efforts then to rescue European Jews. Israel's warnings that the spectre is rising again, this time on the back of Islamic terror, inspire feelings of solidarity as well as fear within mainstream American Jewry and indeed among Jews around the world.

Even Israel's peaceniks are disturbed by the evidence. Much of today's Arab language about Israel is infused with crude anti-Semitism, which has spilled over into the wider Muslim world. Nor is this virulence any longer confined to extremist mosques or fanatical parties. Satellite television spreads the message to most homes in Muslim countries and among Muslims living elsewhere. The language of Islamic Jew-hatred is at times genocidal. Its ideology attracts many because it fits into a broader battle against the perceived decadence and iniquities of the West. A rash of bombings in several more tolerant Muslim countries—of synagogues in Turkey last week and Tunisia last year, and of Jewish sites in

Morocco in May—suggests to many Jews a calculated drive to destroy what remains of Muslim-Jewish amity.

Israel and Jews abroad increasingly fear a fusion of this “green” (ie, Muslim) anti-Semitism with what a French-Jewish leader calls the “brown and red” anti-Semitism of old-style ultra-nationalists and left-wingers in his country and elsewhere in Europe. On the left, especially in France but elsewhere too, criticism of Israel's government sometimes seems to blur into a renewed questioning of the Jewish state's right to exist at all. Most Jews view that as indistinguishable from anti-Semitism.

Some Israeli politicians and commentators urge Jews abroad to speak out against Mr Sharon's policies towards the Palestinians—for Israel's own good and for that of the Jewish diaspora. But for Israel's right, and for many Jews abroad, Israel's behaviour is beside the point. “That's just a convenient excuse for the anti-Semites,” said a delegate to this week's assembly.

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Terrorism

Who gains?

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It may get harder to tell whether terror wins or loses Arab hearts and minds

SAUDI state television is known for its bland fare. But a few days ago, Saudi families, slumped in digestive repose after breaking the Ramadan fast, were stunned to see a famously Koran-thumping, *jihad*-mongering preacher confess, meekly and at length, to the wrongness of his ways.

This repentance was a sign that even extreme Islamists may start to join the wider Muslim public in recoiling at the tactics of terrorists who act in their name, most recently by bombing two synagogues and five days later causing wide devastation in Istanbul and killing dozens, mostly Muslims. If such theological props are removed, it would be a setback for *jihad*-obsessed radicals that may prove as influential as the security offensive that has put Osama bin Laden's al-Qaeda on the back foot (hard though it is to tell to what extent his structure has been dismantled).

AP

Jihad in Riyadh

Yet the rising frequency of terrorist attacks and their widening range suggest that local groups may now represent a bigger threat than any global mother organisation. It is hard to be categorical about the relationship between locals and a global network. But if local groups are indeed operating independently, they may prove harder to eradicate.

The sheikh who was contrite on Saudi television, Ali al-Khodeir, had gained fame among radical youths by preaching that suicide attacks were highly commendable acts of *jihad*, that any Muslim who aided infidels should be considered an infidel, and that chasing Jews from Arabia was a religious duty. He has been in jail since May, when he was arrested after issuing a *fatwa* forbidding citizens from helping police to hunt fugitives thought responsible for a series of bombings in Riyadh that month which killed 34 people.

So the sheikh's shock repentance carried a lot of weight. It was not the first time a *jihadi* preacher had renounced his own teachings. Since the massacre of 58 tourists at Luxor in 1997, leaders of Egypt's Gamaa Islamiya, a group responsible for a string of terror attacks in the early 1990s, have published numerous books condemning them as abhorrent and alien to Islam. Other incidents, from the Twin Towers tragedy to bombings in Tunisia, Indonesia, Morocco and elsewhere, have elicited similar opprobrium from Muslim clerics.

But Mr Khodeir's about-turn was particularly dramatic. Not only was the bombing in Riyadh wrong because it killed Muslim innocents; he said it was wrong to attack non-Muslims unless they warred directly against Islam and indeed wrong to wage any kind of *jihad* without the explicit sanction of a rightful Muslim ruler. He even advised Muslims against fighting Americans in Iraq, on the ground that it is not clear under whose banner they would be fighting. Most surprisingly of all, to Saudis attuned to strong undercurrents of sympathy with Osama bin Laden, he told “armed men hiding in caves” to lay down their guns and think of the Day of Judgment, when they would be questioned about “all the blood that has been shed without justification...or gain.”

Such declarations could have a similar impact on Saudis as those by repentant militants in Egypt, where no terrorist attacks have occurred for five years. Yet some extreme groups are surely beyond influencing. Having long rejected the mainstream, state-supported Muslim clergy, they are likely to dismiss pleas

from the likes of Mr Khodeir as well.

The internet, now the main meeting ground for Islamist radicals, is still awash with justifications for *jihadi* terror. Numerous web postings declare that it is not true that the 18 people who perished in the Riyadh bombing were innocents; they were all FBI agents. Others take a different tack, and say that bombings which have killed Muslims were staged by the CIA or by Israel's security service, Mossad, to undermine support for the *jihadis*. Several proclaimed terrorism experts, discussing the Istanbul blasts on the Arabic satellite channel Al-Arabia this week, reached just this conclusion, citing rumours that Mossad agents were withdrawn from the synagogues just before they were attacked.

This sea of disinformation is rendered stormier by the widely perceived nobility of violent Muslim resistance in Palestine, Iraq and elsewhere. To many Arab minds, it has blurred distinctions between such territorial conflicts and the hazier notion of striking “crusaders” and Muslim “collaborators” elsewhere.

More police work, combined with bigger efforts by Muslims themselves, may defeat the *jihadis* in the long run. But the task would be easier if the underpinning perception that Islam itself is under a mortal threat from the West were removed. Thanks to the rhetoric of people such as Mr Khodeir, that belief is deeply held.

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A United Nations appeal

Forgotten disasters

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No news is not always good news

IRAQ gets all the headlines, and the biggest whack of the aid money, too: America has pledged $18.6 billion over the next year. But there are other crises that crave attention, many involving far worse suffering. With all eyes on Iraq, these hot spots risk being ignored. So this week the UN issued a list of 21 forgotten disasters and appealed for $3 billion to alleviate them.

The list excludes Iraq and Afghanistan, and, for bureaucratic reasons, Colombia and Ethiopia as well. Some of the crises it highlights are practically unheard of. Take the Central African Republic (CAR). If the country's name did not offer a clue, no one would know where it was. The last time it made headlines was in 1977, when the murderous "Emperor" Jean-Bedel Bokassa held a ruinously costly coronation that mimicked Napoleon's. Since then, the country has seen three successful coups, and at least seven attempts.

Twenty-one other crises

In Africa...	
Angola	Post-war poverty
Burundi	Civil war
Central African Republic	Post-war poverty
Congo, Democratic Republic	War
Côte d'Ivoire	Civil war
Eritrea	Food shortage
Great Lakes region	Conflict, refugees
Guinea	Refugees
Liberia	Civil war
Sierra Leone	Post-war poverty
Somalia	State failure
Southern Africa	AIDS, poverty
Sudan	Civil war
Tanzania	Refugees
Uganda	Insurgency in north
West Africa	Conflict, refugees
Zimbabwe	Economic collapse
...and elsewhere	
Chechnya	War
West Bank and Gaza	Conflict, economic collapse
North Korea	Food shortage
Tajikistan	Post-war poverty

Sources: United Nations; *The Economist*

The most recent violent regime change was a few weeks before Iraq's, and was effected not by a superpower but by a disgruntled general called François Bozizé, who has fewer resources at his disposal to rebuild his nation, even if he were so inclined. In April, the UN asked for $9m for food and other emergency aid for the CAR but raised only a fifth of that. The country is so poor and unloved that it counts Equatorial Guinea among its largest donors. This week, the UN asked for a modest $17m over the next year to feed and shelter the 200,000 Central Africans who fled from their homes during recent fighting, restore a semblance of governance, and tackle the worst AIDS epidemic in this part of Africa.

No fewer than 17 of the 21 neglected crises the UN lists are in Africa. There is a looming famine in Eritrea, a civil war rending Burundi, and perhaps 4m Sudanese refugees. In southern Africa, AIDS is aggravating other crises, as those with weakened immune systems are less likely to survive drought-induced food shortages. And so the list goes on.

Reporting of most of the afflicted countries is scant, not least because so many of them persecute journalists. *The Economist*'scorrespondent left the Central African Republic last year after receiving threats, and our Zimbabwe correspondent was banished in May. The only way to raise money for such places, the UN reckons, is to lump them all together and ask for one pile of cash to cover them all.

The UN complains that donors do not allocate emergency aid where the need is greatest, but tend to favour ex-colonies, countries close to the donors' hearts or in which they have a strategic interest, and those whose troubles have been well televised. True enough.

Japanese and Australian donations usually go to Asian supplicants. Europeans are far more generous to their beleaguered cousins in ex-Yugoslavia than to Africans—with an exception: Rwandans are heavily subsidised today because many westerners reckon they could and should have stopped the genocide of 1994. The UN's own list shows a hint of bias, too: it asks for $305m for the Palestinians, but only $187m

for Congo, though the death toll from Congo's war is more than 1,000 times greater than that during the *intifada.*

In practice, it may be impossible to divorce aid from politics, but it is worth a try. As Ronald Reagan said during the Ethiopian famine of 1984, justifying aid to a country run by homicidal Marxists, “A hungry child knows no politics.” Since the worst disasters usually occur under odious regimes, aid workers often have to deal with despots. Aid can be misappropriated to prop up the regime that caused the disaster in the first place, as is happening in North Korea and Zimbabwe. But since the consequence of not helping would, in both cases, be mass starvation, donors sometimes have little choice.

Since the UN never gets all the money it wants for disaster relief, some of its officials hint that donations should be compulsory. In a press release this week, for example, it mused that “many humanitarians would like to see aid evolve from a free-floating act of kindness to [an arrangement] based on law.” It is not obvious that this is a good idea. It may be tiresome for the UN to have to persuade donors of the worthiness of each cause, but it means that money goes where donors (mostly elected governments or individuals in rich countries) want it to, not where unelected bureaucrats choose.

As it happens, the money given to deal with emergencies has been steadily growing, from 0.004% of rich countries' gross national income in 1970 to 0.023% in 2001. This probably reflects donors' disillusionment with long-term development aid, which is less telegenic and has too often failed to make poor countries less so.

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Rwanda and Congo

Time to lay down the machetes

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Will the Rwandan génocidaires hiding in Congo ever surrender?

AFP

Rwarakabije sets a better example

THEY are not a popular group of immigrants. Several thousand of the Hutus who carried out the Rwandan genocide of 1994 fled into neighbouring Congo, where they have been skulking in the forest ever since. They remain armed, and a threat to Rwanda, which has invaded Congo twice to exterminate them. The Congolese hate them, not least because they subsist by pillage, and often kill or rape those they rob. So a lot of people were pleasantly surprised this week when the Hutus' top leader surrendered, and promised that his men would also lay down their arms.

On November 15th, Paul Rwarakabije, commander of the Forces for the Democratic Liberation of Rwanda, better known as the FDLR, flew to Rwanda's capital and was greeted with smiles and hugs by his former enemies. He said he had decided that “war is not the best solution”. Rwanda's government was delighted. An official of the UN mission in Congo, which has been trying for years to persuade the Hutu rebels to disarm and go home, said he expected an “avalanche” of people to do just that.

Maybe. Several hundred FDLR combatants have already gathered in towns in eastern Congo, asking to be repatriated. Rwandan Hutus who have joined local Congolese militia groups are being told, by at least one of their commanders, to leave. But only a few have actually gone home. This bloody saga may not be over quite yet.

For one thing, by Hutu militant standards, those who surrendered this week are moderates. Mr Rwarakabije is not accused of personal involvement in the genocide, and is thought to command the loyalty of only about half of the FDLR. A UN informant talks of him having “deserted” his own movement and perhaps even running for his life. If he does spark a mass capitulation, it will probably only be of the Hutus with the least blood on their machetes.

As for the rest, no one even knows how many there are. Rwanda says up to 40,000; Congo and the UN guess 10,000. They are contactable only by unreliable radios or by trekking deep into the bush. Many must be tired of war, but many also believe that they will all be killed if they go back to Rwanda.

The Congolese regime, which used to arm the Hutus because it (justly) feared Rwanda, is urging them to go home, to cement a tenuous peace between the two countries. Rwandan-backed rebels are now represented in Congo's new transitional government, and have negotiated ceasefires with some pro-government militias in eastern Congo. Meanwhile, Rwandan officials say the *génocidaires* will still mount raids into Rwanda, as they have for nine years, and Rwanda's army will keep catching them.

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Terrorism in Turkey

Blown apart

Nov 20th 2003 | ISTANBUL
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The Istanbul bombings this week look like the work of al-Qaeda

Reuters

IT IS a city that, first as Byzantium, then as Constantinople and now as Istanbul, symbolises the country's proudly secular tradition. Turkey, the only secular Islamic republic, has a history of religious tolerance going as far back as the end of the 15th century, when Sephardic Jews fleeing Spanish persecution were welcomed by Sultan Bayazid II. The sultan said he wanted his empire “to become an umbrella for humanity”.

This week that humanity was severely tested. On November 20th, two explosions that may have been the work of suicide bombers hit the offices of HSBC, a British-based bank, and the British consulate. At least 25 people were reported to have been killed, and as many as 300 were wounded. The blasts came only a few days after suicide bombers had struck two of the city's oldest synagogues, Neve Shalom and Beth Israel. In those two attacks, perpetrated on the Jewish sabbath, some 25 people died, six of them Jews and the rest Turkish Muslim passers-by, while over 300 people were injured.

The British government promptly linked the November 20th attacks to al-Qaeda. The foreign secretary, Jack Straw, declared that they had “all the hallmarks of international terrorism practised by al-Qaeda and associated organisations.” The Turks were slower to draw the same connection, though one al-Qaeda group duly claimed responsibility. The link to al-Qaeda looked stronger for the synagogue suicide bombers. Their attack was claimed both by a local Islamic group and by an Egyptian offshoot of al-Qaeda. And Turkish police were quick to establish the identities of the two bombers.

The two men, Mesut Cabuk and Gokhan Altuntas, were Kurds from the south-eastern province of Bingol, long a fertile recruiting ground for terrorist groups. The pair allegedly had links with Hizbullah, a murderous Turkish faction that, like its Lebanese namesake, has been armed and trained in Iran. Ironically, the group was tolerated by the authorities in the 1990s because Hizbullah militants killed hundreds of left-leaning Kurd nationalists.

Among the questions after the attacks were: why Turkey? And what might the attacks have been meant to achieve?

Turkey may have become an al-Qaeda target for all sorts of reasons. It is an ally of the United States and a member of NATO. It is Islamic, but at the same time both fiercely secular and a democracy. Last month, the Turkish parliament approved a request from the Americans to deploy Turkish troops in Iraq

(though in March the parliament had rejected a plan to let American troops use Turkey to launch a second front against Saddam Hussein). Yet the response to the idea of Turkish troops in Iraq, especially from Iraq's Kurds, was so negative that the plan has now been quietly dropped.

As to the attacks' goals, one might have been to weaken Turkey's close links with Israel. If so, it has failed. Turkey's prime minister, Tayyip Erdogan, may have begun his political career in a pro-Islamic group that called Jews “blood-suckers”. But this week he became the first Turkish leader to visit Istanbul's chief rabbinate, when he called on Yitzhak Haleva the day after the synagogue attacks. The Turkish and Israeli foreign ministers pledged jointly to work to fight terrorism, and thousands of Turks attended this week's funeral to bury the Jewish dead.

Turkey's military and intelligence ties to Israel were largely unaffected by the arrival of Mr Erdogan. Turkey was the first Muslim country to recognise the state of Israel. In 1996 the two signed a military co-operation agreement that allowed Israeli air-force pilots to train in Turkey. Israel is among Turkey's top suppliers of military hardware. Yet Mr Erdogan's rebuttal earlier this month of a request by the Israeli prime minister, Ariel Sharon, to visit Ankara alarmed some Israeli diplomats. The government has also stepped up its criticism of Israel's treatment of Palestinians.

Some more radical Islamic attitudes can be discerned in Turkey. *Yeni Safak*, a pro-Islamic daily, claimed that the synagogue attacks were orchestrated by the Israeli secret service and the CIA. Deniz Baykal, leader of the opposition pro-secular Republican People's Party, accuses the government of being soft on Islamic extremists. Some 130 Hizbullah militants were freed from jail under a general amnesty approved in September. Yet even Mr Erdogan's critics acknowledge that he has displayed remarkable statesmanship over this week's terrible atrocities. Bayazid II would have been proud.

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France's far right

The Le Pens are coming

Nov 20th 2003 | PARIS
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France's National Front is still attracting a lot of support

Get article background

THE drum-beat throbs, the imagery is judicious: Marine with her twin babies, Marine shopping, Marine in her kitchen, Marine as a child with her father. Just an ordinary French woman, leading an ordinary life. Except that her father is Jean-Marie Le Pen, leader of the National Front. And the party that evicted the Socialists in the first round of last year's presidential election may match its 2002 score of 17% in next March's regional elections.

This was Marine Le Pen's first campaign meeting as head of the party list in Ile-de-France, the region around Paris. Appointed earlier this year as a party vice-president, she supplied a familiar blend of coarse nationalism and populist defiance. French politicians, left and right, were interchangeably dishonest: “the same policies, the same mistakes, the same autism, the same denial of reality, the same taste for power”. The National Front was now “the only force of opposition in our country.”

To her detractors, Ms Le Pen's appointment was bitter confirmation of the boss's dynasticism. To her supporters, it was a clever attempt to broaden the appeal of a traditionally macho party. Young, a working mother, but as punchy as her father, and with the same gravelly voice, she is a fresh face for a party keen to pick up more sophisticated voters. Her father will concentrate on the Provence-Alpes-Côte d'Azur region, where he heads the party list. She will market a more tempered, contemporary message in metropolitan Paris.

“The regional elections of 2004 will be a new April 21st,” Ms Le Pen insists, referring to the date when her father beat the Socialist presidential candidate, Lionel Jospin, into third place. Bigger in person even than she appears on screen, Ms Le Pen is a formidable presence, if less assured than her father. She claims that the party could get 20% of the vote next March. Her prospects of claiming the presidency of the Paris region are slim. But her father could snatch the top spot in Provence, where he won 28% of the vote in 1998. In a two-round poll, with a 10% threshold in the first round, a three-way contest between the Socialists, the National Front and the centre-right could end up favouring the far right.

What explains the Front's resurgence? After the 2002 shock there was much talk of “never again”. A million people took to the streets in shame and defiance. President Jacques Chirac selected Jean-Pierre Raffarin, a politician with no trace of elitism, as prime minister. Nicolas Sarkozy, a steely right-winger, was sent to the interior ministry to clamp down on crime and immigration. This would rob the far right, it was hoped, of its populist appeal.

Yet today Mr Raffarin's popularity has sunk, from 58% at the start of the year to just 33% now. But the left has not been the main beneficiary. Instead, a structural change has taken hold: a collapse of support for mainstream parties, coupled with a rise in support for extremes on both right and left. The far right no longer has a monopoly on the protest vote. But, as Pascal Perrineau, a political scientist at Sciences-Po, says, “Le Pen is an expert at politicising hostility towards the government.”

Racial tensions are rising. This week, a Jewish school outside Paris was burnt. Demands by some French Muslims to wear the veil at school, or to reserve time at swimming pools for Muslim women, have provoked a backlash. “We want to keep the essence of France,” explains Marine. “They started with one mosque, now there are mosques everywhere; now they want the veil; next separate swimming pools. Integration has totally failed.”

The National Front is playing a patient game. In a satirical television show, “Les Guignols de l'Info”, Mr Le

Pen now makes silent appearances. “What are you doing?” asks the presenter. “Nothing,” he replies, “just waiting.” In her headquarters, Ms Le Pen drives home the anti-elitist message: “I do my own shopping, I take my kids to school. I don't go around with a chauffeur and a bodyguard; I live in the real world, and that's what counts.”

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The Olympics in Greece

Minus a minaret

Nov 20th 2003 | ATHENS
From The Economist print edition

Plans to build a mosque in Athens are in disarray

FOR all the rush to complete the construction of stadiums and media villages in time for the Olympics next summer, one building most athletes and spectators might take for granted is still missing. Embarrassingly, Athens lacks an official place of worship for Muslims.

Archbishop Christodoulos, head of the Greek Orthodox church, to which 98% of the population belongs, is partly to blame. He opposes the government's plans to build an Islamic cultural centre, including a large mosque, in Peania, a small town close to Athens's airport. One reason, say churchmen, is that a minaret on the skyline might mislead first-time visitors.

The Peania centre would be financed by the Saudi government. Its imam would be a senior Islamic scholar, drawn from Cairo's al-Azhar university. But, as an Athens-based organisation, it would be overseen by Greek officials, which would make it easier for the government to clamp down if militants (or terrorists) were to muscle in.

Local residents who back the archbishop have erected a cross at the highest point of the proposed site for the mosque. The mayor says the area belongs to the municipality, not the state, and should be sold to build homes. He is threatening to press his claim in court.

The capital's Muslims, who number over 100,000, now worship in warehouses and apartments in the city centre. About 30 informal mosques open for Friday prayers conducted by imams of various nationalities. Most worshippers are immigrants, from Nigerian street traders to Bangladeshi clothworkers.

Time is running short for the government. It has promised the International Olympic Committee that a proper mosque will be available in Athens before August 13th, the opening day of the games. One suggestion is that it should restore the 15th-century Fethiye mosque, one of only two in Athens to survive the past Greek practice of demolishing most Ottoman Turkish monuments. But refurbishing the building would take longer than a few months. And it would be too small to accommodate both locals and Olympic visitors.

The quick-fix solution now being considered is to transform a derelict factory in Votanikos, a scruffy central Athens district with lots of Muslim residents, into a temporary mosque. But outsiders might find it hard to locate. And it would hardly fulfil the government's promise of a proper mosque.

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Catalonia's inconclusive election

After Pujol

Nov 20th 2003 | BARCELONA
From The Economist print edition

Left-wing nationalists advance, but not (yet) to independence

“CATALONIA is passing through its worst moment in its relationship with Madrid.” That was Jordi Pujol's assessment as he prepared to leave after 23 years as premier of Spain's richest region. The voting in the election on November 16th suggests that he may be right. In their first election without Mr Pujol, the nationalist Convergence and Union (CiU) finished first, again. But the Catalan Republican Left (ERC), a left-wing pro-independence party, almost doubled its vote.

Neither the CiU nor the second-placed Socialists now have a majority, leaving the balance of power in the hands of the ERC leader, Josep Lluís Carod-Rovira. His prompt declamation “Long live free Catalonia!” has put the wind up Madrid. Is Catalonia heading for independence?

The answer is probably no. All political parties except the People's Party, run by Spain's prime minister, José María Aznar, want more autonomy for the region. But there is little demand for independence. The result heralds a post-Pujol era that ends the 20-year hegemony of the region's two leading parties. The CiU dropped from 56 seats in 1999 to 46 in the 135-seat assembly; the Socialists from 52 to 42; while the ERC advanced from 12 to 23.

The CiU was tainted both by a reputation for political jobbery and by its pacts with Mr Aznar's PP. Meanwhile, the strategy of Pasqual Maragall, former mayor of Barcelona and the regional Socialist leader, of donning Catalan nationalists' clothes backfired. When the usual horse-trading ends, the most likely outcome will be a nationalist CiU-ERC coalition, though the PP is putting pressure on the CiU to join forces with the Socialists to stop Catalan nationalism becoming more radical.

Whatever the final line-up, there is a fear in Madrid that, without the pragmatism and moderating hand of Mr Pujol, Catalan nationalism might yet go the way of its Basque counterpart. There is no doubt that the Catalan result will blight Mr Aznar's attempts to face down demands from Spain's devolved regions for still more autonomy. A plan by the Basque regional government to hold a referendum on whether Basques should have the right to self-determination is testing his patience. “There is now a solid nationalist majority in the parliament, and, take note, this will allow us to forge ahead with plans to change the statute [to gain more autonomy],” said Mr Pujol's successor as CiU leader, Artur Mas.

Yet the new bogeyman, Mr Carod-Rovira, seems a reasonable enough chap. An ardent lover of literature, he is the son of a Franco-era policeman and a Catalan mother, who has the rare distinction of having a pornographic film, “Journeys in Catalonia”, dedicated to him. He founded his first political party when he was just 12. At 21, he was imprisoned for political activities. Besides calling for a “government of national unity”, his other demand is that the CiU pledge not to form any more pacts with the PP. That could be important after next March's general election.

Amid this upheaval, modern Catalonia's “founding father”, Mr Pujol, has quietly stepped down. His credentials as the icon of his “country” are now unchallengeable. He went to jail for opposing Franco. Later he drew Catalan nationalists peacefully into mainstream Spanish politics and championed the revival of the Catalan language. Yet he is a skilfully ambiguous nationalist who has ruled out secession. Although he provided vital backing to national governments in Madrid (he supported the 1993-96 Socialist government of Felipe González before backing Mr Aznar), he refused to send a deputy to the capital. His departure has opened the way for a more politically plural and volatile Catalonia, one that Madrid will have to learn to court.

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Serbia and Croatia

Election blight

Nov 20th 2003 | BELGRADE
From The Economist print edition

A nationalist revival in the Balkans

THEY call him the “gravedigger”. Tomislav Nikolic was once a cemetery director. Now he has buried the Serbian government. He is, by default, leader of the extreme nationalist Serbian Radical Party (the real leader, Vojislav Seselj, is in prison awaiting trial at the war-crimes tribunal in The Hague). On November 16th Mr Nikolic scored a stunning victory in the country's presidential election, over a dull grandee put up by the governing coalition.

Besides the bloody war record of the Serbian Radicals' militia, the party has had close contacts over the years with the likes of Jean-Marie Le Pen in France and even Saddam Hussein. Time to panic? No, but Serbia faces renewed instability.

Mr Nikolic will not in fact be Serbia's new president, since 61% of the electorate did not vote, meaning that the 50% threshold required for the election to succeed was missed (for a third time). On this occasion, one reason for the failure was that the ruling coalition had just given up the ghost. Realising that it would lose a vote of confidence in parliament, it called a general election for December 28th. Many reform-minded democrats then did not bother to vote in the presidential race.

Srdjan Bogosavljevic, head of Strategic Marketing, a polling firm, says the likely outcome in December lies somewhere between “a catastrophe and a disaster”. He foresees a big risk of the Radicals being the largest single party, but unable to form a government. That is the catastrophe. A deputy prime minister, Zarko Korac, says that even the party of Vojislav Kostunica, the moderate nationalist and a former Yugoslav president, would not dare to form a coalition with the Radicals, for it would make him “dead meat for the West.”

Two other main parties are in the running. The scandal-tainted Democratic Party, the core of the present government, will be devastated at the elections. G17 Plus, which has the image of a pro-reform, pro-European party, may yet emerge as a kingmaker. But the disaster envisaged by Mr Bogosavljevic would be if these two, plus Mr Kostunica's party, formed an unnatural coalition, for that would allow the Radicals to prosper as sole opposition.

Inside the Serbian government building, a gloomy end-of-term feeling pervades. Behind closed doors ministers use the worst possible epithets to describe their colleagues, before popping round to plot election strategies with them.

The losers from all this, inevitably, are the people of Serbia. Reform and foreign investment have both stalled. Post-election horse-trading could take weeks, if not months. And the hard jobs, such as sending Ratko Mladic, an indicted Bosnian Serb general, to The Hague, would still be left undone. Many think it was the indictments of four Serbian generals issued by the tribunal's chief prosecutor, Carla del Ponte, that finished off the government.

In Croatia, meanwhile, the Croatian Democratic Union, whose ex-leader, Franjo Tudjman, conspired with Slobodan Milosevic to dismember Bosnia, could return to power in the elections on November 23rd. The party insists that it has changed, and says that it would even send Ante Gotovina, another indicted general, to The Hague. But many doubt its new-found respectability.

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Germany's Social Democrats

Slow implosion

Nov 20th 2003 | BOCHUM
From The Economist print edition

The sad state of the ruling party

Get article background

A CHURCH that loses its faithful, its clergy and its doctrine is doomed. Such, say some, is the fate of Germany's governing Social Democrats (SPD). This week's party congress in Bochum failed to dispel the gloom. Although Gerhard Schröder, Germany's chancellor, was re-elected as chairman, with 81% of the votes, other leaders were punished for their “neo-liberal” views and the party's woes, notably the secretary-general, Olaf Scholz.

More is needed to stop the party's “implosion”, in the words of Franz Walter, a historian. This year alone, the SPD has lost 5% of its members, or 26,400 people. The leavers are often those who did most of the tedious party work. Long-time voters, too, are turning away in droves. At most recent regional elections, the party has won about 10% fewer votes than before. If national elections were held now, the SPD might get only 29% of the vote, compared with 38.5% in September 2002.

What is more, the smaller SPD is hardly dynamic. Mr Schröder was re-elected only because delegates do not like undermining their chancellor. There is little political talent in the wings. During its time in opposition the SPD missed any chance to articulate a new programme, leaving members (and voters) confused.

One reason for the mess is Mr Schröder himself. He is doing almost the opposite of what he vowed to do during last year's election campaign. It is only now that his government is trying to communicate coherently what its Agenda 2010 reforms are for. And he is miscast as party chairman. A pragmatic politician at heart, he is incapable of laying out the vision that the SPD needs. In his speech to the party congress, he spent only two minutes on how Germany might look in 2010. Asked if he would expand on this in future speeches, he replied: “Ach, leave me alone.”

The SPD seems out of step with the times. Despite its conversion to free-market capitalism at its historic 1959 congress in Bad Godesberg, many members still harbour hopes of a socialist future. At the same time, argues Mr Walter, the party's policies have let erstwhile activists climb up to become part of the establishment. In some ways, the SPD is no longer a *Volkspartei*, or inclusive people's party.

This ought to be good news for the Christian Democrats (CDU). Yet a few years on, the CDU could find itself in a similar situation. Some have long called it Germany's “second social-democratic party”. Party leaders are quarrelling about the structural reforms proposed by their boss, Angela Merkel. Her decision to expel Martin Hohmann, a far-right backbencher, for an anti-Semitic speech may also reduce the party's popular support.

All of which raises the question of where disaffected voters might go. There is talk of a bigger extra-parliamentary opposition: in early November a protest rally in Berlin attracted more than 100,000. Observers also wonder if Germany might, like some other countries, see the emergence of a new political force, such as the late Pim Fortuyn's party in the Netherlands or Trotskyite groupings in France.

Fortunately for Germany's two big *Volksparteien*, the political landscape does not lend itself to big changes. To the left stand the former communists, not an attractive bunch. To the right stands German history, which limits the chances for populists or nationalists. So far, it is the party of non-voters that has grown. For the SPD, then, there is still hope that, if only the economy improves, it could win back some of its lost congregation.

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Georgia's post-electoral turmoil

Ye shall not be saved

Nov 20th 2003 | TBILISI
From The Economist print edition

AP

The president may survive, but at a high price

ANYBODY watching Georgia might think that Edward Shevardnadze's presidency was about to end. Ever since flawed parliamentary elections on November 2nd, opposition leaders have been bringing thousands of protesters on to the streets, calling for Mr Shevardnadze to step down. More protests are planned when final official figures give two pro-government blocks the most votes. The trouble is that exit polls and an independent tally both gave first place to an opposition party.

What is really at stake is the presidential election in 2005. The parliamentary vote was both a popularity test for opposition hopefuls and a way for Mr Shevardnadze to influence the succession. If he steps down before his term ends, the speaker of parliament becomes acting president, giving him a head-start.

This week Mr Shevardnadze has started to put some pro-government demonstrators on to the streets. But most were brought in from Ajaria, an autonomous region in the west of Georgia run by the autocratic Aslan Abashidze. In his fief, no election observers were allowed. Official figures put both voter turnout and support for the pro-government party that he controls at over 90%.

By calling on Mr Abashidze, Mr Shevardnadze may win, for now. His main opponent, Mikheil Saakashvili, is defiant, but may not want to risk violent clashes. Memories of the civil war a decade ago are sharp, and Georgians contrast their peaceful protests with the ugly post-election riots in neighbouring Azerbaijan. “It's a promising sign that Georgia still has a chance to be part of the civilised world,” says Temuri Yakobashvili of the Georgian Foundation for Strategic and International Studies.

But Mr Shevardnadze's gamble is a pact with the devil. The price for Mr Abashidze's backing will be a growth of his influence—not the best thing to give a feudal lord in a fractured country. He has been to Russia as Mr Shevardnadze's representative. But Moscow still despises Mr Shevardnadze for his role, as Soviet foreign minister, in breaking up the Soviet Union. Russia already interferes in two other autonomous regions of Georgia, Abkhazia and South Ossetia. To go to Russia cap in hand is a sign of the president's desperation to hold on to power—and a disappointment to those who had hoped for stronger democracy in Georgia. “This was an exam,” says Mr Yakobashvili, “and we just failed it.”

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Charlemagne

An inter-governmental tug-of-war

Nov 20th 2003
From The Economist print edition

How the governments of Europe are rewriting the European Union's draft constitution

Get article background

WHEN Valéry Giscard d'Estaing and his convention on the future of Europe delivered their draft constitution to EU governments last June, they stuck a large label on saying “Fragile: Do Not Touch.” The argument of the conventioneers was that they had considered all possible questions, and had achieved the best compromise available. Indeed, they insisted, to alter any one element in their text would be to risk making the entire product incoherent. But Europe's governments have not paid any attention. It is becoming clear that the inter-governmental conference (IGC) now poring over the convention's draft text will make many significant changes.

The single most controversial issue concerns the balance of power between EU countries in the Council of Ministers. The convention's proposal was to junk the system of weighted votes and switch to “double majority voting”: a law would be passed if it commanded the support of a majority of countries, representing three-fifths of the EU's population. This new system implies a considerable loss of influence for Spain and Poland, which have duly vowed to oppose it.

It had been generally assumed, however, that the two countries were isolated and that there was a good chance that the other 23 EU countries would force them to accept the double majority. Yet some months ago, the British gave a secret undertaking to Spain that they would oppose the adoption of the double majority in return for Spanish support in blocking any move towards tax harmonisation. This week British officials refused to confirm that the Spanish deal was still on, saying merely that they were “sympathetic” to Spanish concerns. But Jack Straw, Britain's foreign secretary, has now said publicly that Britain will not accept any deal that Poland is unhappy with; and he seems to have received pledges that, in return, Poland will support British positions on tax and defence policy.

Germany, which would gain a lot more influence from a move to a double majority, continues to insist that its adoption is crucial to the new constitution. But officials from other countries are beginning to realise that the new voting system will not be accepted. That means the EU is likely to revert to the Byzantine system of weighted votes agreed at Nice three years ago. Under Nice, Poland and Spain each get almost as many votes as Germany, despite their populations being only half as big.

Junking the double majority system would get rid of one main plank of the convention's proposals for the EU's institutions. The other main reform—cutting the number of voting European Commissioners to 15—is also under threat. The smaller countries have made it clear that they will not agree to losing “their” commissioner. It is now widely predicted that the larger EU countries will concede that all countries can have a voting commissioner, although they may try to argue that the biggest six should then revert to the two that they have had until now. Thus, in true Brussels style, might a dispute between 15 (in the convention text) and 25 (as the smalls say they want) threaten to turn into an absurd compromise of 31.

The great unravelling

These institutional arguments may fascinate Brussels insiders. But the draft constitution has ambitious and arguably more important plans for the extension of EU powers in such areas as justice, foreign policy, defence, taxation, the budget and energy, all of which are now under attack. The most dramatic proposal is that EU policy on serious cross-border crime, immigration and asylum should be decided by majority vote. Several countries are now having second thoughts about this. The Irish dislike the idea that their system of criminal law could move towards the continental European model. Britain, Portugal,

Slovakia and Austria are against the notion of harmonising criminal-law procedures. And if these articles on home affairs are reopened, the Germans, for all their determination to stick by the convention text, may be tempted to abandon their support of majority voting on immigration.

Britain, Ireland, Poland and Sweden also dislike the idea of calling the EU's foreign-policy supremo a “foreign minister”, since this smacks too much of a superstate. Provisions to allow a core group of countries to forge a closer defence union, from which they might exclude others, are also meeting opposition from Finland, the central Europeans and the British. Britain and Ireland, meanwhile, are leading the battle against any hint of tax harmonisation. And the British, after heavy lobbying by the big oil companies, are belatedly trying to insist on changes to proposals to create a common EU energy policy. A bevy of finance ministers are also keen to limit the European Parliament's planned powers over the EU budget.

If many of these changes are made, defenders of the convention text will cry foul and start saying that the whole thing has been gutted. That would be melodramatic. Most of the details of the draft constitution are all but agreed: a big extension of majority voting, a binding Charter of Fundamental Rights, a president of the European Council, a “legal personality” for the Union and the first explicit statement of the supremacy of EU law over national statutes. These are not small matters.

All the same, if there are substantial and eye-catching changes to the convention text, or if (as seems quite likely) the inter-governmental conference simply fails to reach agreement on time next month, there will be much hand-wringing in Brussels, Paris and Berlin. The French and Germans might then be tempted to use a “failure” in the IGC as an excuse to press ahead with schemes for a closer Franco-German union, which are known to beguile senior politicians in Paris in particular. If that happens, efforts to write a new EU constitution, far from marking a new beginning for Europe, might instead mark the beginning of the end.

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The special relationship

What's in it for us?

Nov 20th 2003
From The Economist print edition

PA

Tony Blair's loyalty to George Bush leaves many puzzled and sceptical

THE last time an American president stayed in Buckingham Palace was 85 years ago, when Woodrow Wilson visited King George V to toast the end of the first world war. George Bush's visit may have been planned with a similar aim in mind, but the continuing conflict in Iraq has limited the scope for cheers and fuelled hostility to Mr Bush. It has also sharpened a question in the minds not just of protesters, but also of many British and continental European observers. Why does Tony Blair support George Bush so loyally?

Sceptics argue that neither Britain nor Tony Blair have gained much from the closeness between Mr Blair and Mr Bush. Britain has failed to advance its particular interests or influence American policy. In London, Mr Bush declared his pride in describing Britain as America's "closest ally in the world", but to many Britons the most special thing about the "special relationship" is that it is specially unequal. Britain gives, America takes.

In Mr Blair's view, it does not make sense to ask what Britain gets out of the relationship. He thinks America and Britain share the same instincts—outward-looking, confident, interventionist—so the closeness comes naturally, not as a means to an end. Working with America, Mr Blair believes, is the only way to make the world a better and a safer place. No other country has nearly as much power to make a positive difference. What's more, as the only superpower, America cannot be confronted successfully. It can, however, be influenced by friends.

Yet, say critics, there are areas where British and American interests and policies diverge—steel tariffs, the Kyoto treaty on global warming, the International Criminal Court, for instance. Despite its closeness to America, Britain has won no ground on those issues. The newly departed British ambassador to America, Sir Christopher Meyer, said this week that Britain should have been tougher over steel tariffs when it was committing itself to fighting with America in Iraq.

Mr Blair insists that such issues should be kept separate. Trade is one thing, security another. Where linkage makes sense, he argues for it—in, for instance, persuading America to see the future of Iraq, engagement with the United Nations and the Middle East peace process as related issues. That has worked, up to a point. Mr Blair did nudge Mr Bush to work through the UN. Some hawkish Americans now think that was a mistake, but the administration is now committed to UN structures in a way that differs

sharply from its earlier unilateralist rhetoric. Mr Blair takes some credit for Mr Bush's personal commitment to the Israeli-Palestinian road map—not that that has got anywhere much.

One of the issues that rankles most in Britain is the plight of British detainees in the Guantánamo Bay detention camp. Their continued detention may be reprehensible, but it is not a symptom of failure on Mr Blair's part. The British government is not strident in asking for their return. In truth, it would probably prefer that they get a fairish trial somewhere else than have to deal with them at home.

AP

So close

As for progress in Iraq, Downing Street is irritated with the Pentagon's rhetoric and reluctance to heed advice. But Mr Blair has weekly video-conferences with Mr Bush and feels that they are on "exactly the same wavelength", according to a source closely involved. He is increasingly confident that as the details of the coalition's revised policy in Iraq emerge in the coming weeks, support for it will grow. He dismisses the idea that the American military in Iraq is incompetent and trigger-happy. The Americans, he points out, have not been trained for the job they are now doing; and the "Sunni triangle" they police is far more dangerous than the British forces' zone in the Shi'ite south of Iraq.

But that still leaves the difficulty in articulating how Britain benefits. The old cold-war pillars of Anglo-American cooperation, on nuclear weapons and intelligence, are no longer so obviously useful. The really important bit is hard to talk about. If Mr Blair ever started boasting that he has changed the president's mind he would undermine the influence that made it possible. And any attempt to sell a policy based on "trust me" is made harder by the damage that the missing weapons of mass destruction have done to the government's credibility. All that is aggravated in some quarters by Mr Bush's stumbling syntax and Texan folksiness, which arouse a snobbish hostility among some articulate, metropolitan Britons.

Yet their views seem in a minority. Widespread newspaper coverage of protestors' plans in the run-up to Mr Bush's visit gave the impression that the nation would be barricading the palace. But a poll on the eve of his arrival in the *Guardian* (see table) showed a majority welcoming Mr Bush and believing that the war was justified, and that America is a force for good in the world. Labour voters are especially supportive. The opposite sentiments are concentrated among young people and supporters of the Liberal Democrats. Mr Bush goes down especially badly with women and the elderly.

Mine eyes have seen the glory

Poll questions, %

	Total	Female	Aged 18-24	Labour voters
...do you think the military attack on Iraq to remove Saddam Hussein was...?				
Justified	47	42	36	57
Unjustified	41	45	53	33
...do you think of America as a force for good or a force for evil in the world?				
For good	62	55	57	66
For evil	15	17	31	15
...do you welcome [George Bush's] visit or would you prefer he did not come?				
Welcome visit	43	35	47	51
Prefer he did not come	36	42	34	34

Source: ICM

Mr Blair may be right that many of the people who sneer at his relationship with Mr Bush are either prejudiced or unwilling to face reality. But perhaps the strongest card in favour of the special relationship is that so many Britons still find the alternative less attractive. Best friends with France and Germany, anybody?

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Suicide bombers

One martyr doesn't make a jihad

Nov 20th 2003 | BAGHDAD
From The Economist print edition

Declining demand for British suicide bombers

Abdelrahman, sportsman and bomber

LAST month, a 22-year-old Yemeni asylum seeker in Sheffield said goodbye to his son and his pregnant British wife and went to Iraq to blow himself up. *Jihadis* trawling their websites have yet to locate which “car of death” Wail Abdelrahman was driving, but have informed his family and friends in Yemen that he received a martyr's burial.

Are *jihadis* so embedded in Britain? If so, Abdelrahman was the ultimate sleeper. Aside from a wisp of a goatee, there was nothing to suggest his extremism. He arrived in Sheffield penniless three years ago, after fleeing his Aden tenement for political asylum in Britain. Some of his best friends were non-Muslims, and after bouts of *tae kwon do* fights, at which he excelled, they would all head down to the pub. He was so proud of a new three-piece suite he bought for his council house that he invited friends in to sit on it. His only hint of political commitment was two trips to anti-war marches in London.

When he left last month, he told friends he was flying to Dubai because he was tired of racist neighbours dumping rubbish through his letter-box. “We'll meet again,” he tearfully told his *tae kwon do* coach, Andy Hill, who had signed his passport application and recommended him for the British Olympic Squad.

But Abdelrahman was also well trained. He studied computers and was praised as a martial arts don. He ran a *tae kwon do* club in the annex to his local mosque, called Goodwill, packing sermons into his punches. The mosque grandees saw Abdelrahman as a star attraction, handy for keeping local youths off drugs and the streets. They said he was following in the tradition of “Prince” Naseem Hamed, the boxing champion and local hero who built the mosque.

Should the police have been more suspicious? Some draw comparisons to the Finsbury Park mosque of Abu Hamza, an Egyptian veteran of the Afghan *jihad*, which housed a martial clubs in the basement until the security forces raided the premises. And Sheffield has a record of *jihadi* activity. Abdelrahman arrived shortly after another asylum-seeker and Afghan *jihad* veteran in Sheffield, Lamine Maroni, was caught plotting to blow up a Christmas market in Strasbourg. Only after Abdelrahman had flown did the security forces search his house, arrest four of his students on terrorism charges and interrogate colleagues. Before that, friends say, the authorities had approved his asylum application and issued travel papers.

Worrying stuff. Yet, in comparison to earlier *jihads*, the British deployment to Iraq has been a bit of a let-down. Bosnia's war attracted British Muslims in their hundreds. The 2001 Afghan campaign helped fill some of the Guantánamo Bay cells with Taliban from Tipton, and a drop-out from the London School of Economics masterminded the killing in Pakistan of Daniel Pearl, an American journalist. Earlier this year, two British suicide bombers died in Israel. These days, though, long-faced Islamists are surprisingly subdued. “Even the collections and the preaching feel more restrained,” moans an Afghan war veteran.

The growing zeal of the British security forces and waning enthusiasm from British Muslims could be to blame. But *jihadis* say there is a more important factor: the supply of bombers exceeds demand, and British bombers are too expensive. “For the cost of equipping and transporting a British fighter into Iraq—about $2,000—we can shift 20 guerrillas into Iraq from neighbouring Arab states and Chechnya,” says a retired *jihadi* field officer. Arabs, he says, are also less likely to have visa problems. Yemenis, like Wail, need no visa to enter Syria, although, according to the retired *jihadi*, at least one Arab embassy is

doing its best to accommodate by issuing passports to other nationals willing to thwart America's war in Iraq.

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Football

Fill your boots

Nov 20th 2003
From The Economist print edition

English rugby is clean and wholesome, but not rich

AP

BELIEVE the caricature, and one kind of football stars overpaid loutish playboys, associated with hooligans by day and drunken sluts at night. The other kind features charming, family-minded chaps, egged on by good-humoured fans. Which game would you prefer? As the English rugby team prepares for this Saturday's World Cup final in Australia, the game's managers are already celebrating a triumphant climax to their four-year plan to broaden its appeal.

Only seven years after the English game went professional, the country's top rugby players are now earning a million pounds a year. But hopes of denting soccer's dominance are overblown. English rugby is crippled by the same poshness that makes it attractive to sponsors. Hackett, for example, a retailer of upmarket men's clothes, says sales of a tweed jacket modelled by Jonny Wilkinson, England's star player, have been soaring higher than his trademark kicks. Nice, but nothing to match the billions of pounds that the other kind of football turns over.

Jim O'Toole, a sports sponsorship expert at WPP, an advertising agency, says “rugby will never have the same critical mass as football in terms of participants, of live spectators, or of people who follow it.” Take attendance: Manchester United regularly sells out its 67,500-seater stadium; Leicester, England's most popular rugby club, manages only 17,000. Televised matches show a similar gap: last Saturday a run-of-the-mill football match on Sky Sports gained 1.12m viewers; the most-watched rugby match had only 177,000.

It starts in the schools. Whereas in other rugby-playing countries, the game is classless, in England it is played mostly in fee-paying schools. Headmasters praise its character-forming influence; they term plebian ordinary football, dismissively, “the round-ball game”. That gap continues in the types of adults who play and watch. Seats at Twickenham, the national stadium, go either to rugby club members, or to commercial sponsors, not outsiders.

Could English rugby copy soccer in America, where middle-class “soccer moms” deterred by American football's rough image have made the minority kind of football fashionable? Perhaps. But soccer's American success has been fuelled partly by its appeal to girls. English rugby mummies may hesitate to subject their daughters to the bracing and muddy pleasures of the scrum and the maul.

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Political theatre

Luvvies at war

Nov 20th 2003
From The Economist print edition

Politics stages a theatrical comeback

THEATRE, observed one of Molière's critics, does not so much cure the sick as confirm the healthy in their health. For today's political dramatists, though, that may be enough. Arty opponents of the British government—and, in particular, of George Bush's hissable regime—are finding the stage an excellent means of firing up their already disenchanted audiences.

Opponents of the Iraq war have been especially keen to tread the boards. This year, central London theatres have hosted “The Madness of George Dubya”, a musical; “War Correspondence”, a series of pacifist plays; and a smattering of readings by art world luminaries. Three short, critical pieces were staged at the Royal Court Theatre this week to coincide with the president's visit. Political junkies in search of other topics will also find a dramatisation of the Hutton inquiry at the Tricycle Theatre, in north London, and “The Permanent Way”, Sir David Hare's caustic play about railway privatisation, in Birmingham. For the most part, these have been well reviewed and well attended.

The new wave of political theatre is different from the torrent of agit-prop that followed the abolition of censorship in the late 1960s. For one thing, it is less didactic: raving has (mostly) been replaced by wry humour. It is also more elitist, being unashamedly concerned with how political decisions are made.

To cover rapidly changing political events, of course, theatre must be quick—and, more than any other art form, it is. Small theatres can put on new productions at short notice; elsewhere, topical gags are easily inserted into existing plays. Slower production processes mean that, by contrast, film and music have only recently caught up with the terrorist attacks of September 11th, 2001, while literature lags even further behind. Two of this year's big books—“Hey Nostradamus!”, by the supposedly trendy Douglas Coupland, and D.B.C. Pierre's “Vernon God Little”, which won the Booker prize—both take their inspiration from the 1999 Columbine shootings.

Political theatre is also getting a good deal from the government. Lottery money has paid for fancy renovations to many small theatres, while the Arts Council has reserved funds for companies that reach out to locals and young people. Radicals being a dab hand at that particular game, they have been able to pick up many of the crumbs. “The arts community is always complaining, but it's impossible to say that things haven't improved,” says Max Stafford-Clark, founder of the Out of Joint theatre company and director of “The Permanent Way”.

The irony of a regime being so generous to its own critics would appeal to any playwright. If, having insisted that the arts must appeal to ordinary people, the government finds itself under attack, that is not entirely the dramatists' fault. They are just playing to the gallery.

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Northern Ireland

The carnivore loses his teeth

Nov 20th 2003 | BELFAST
From The Economist print edition

Is Ian Paisley on his way out?

THE nation's most strident demagogue showed his age this week. A street confrontation between the 77-year-old Ian Paisley and David Trimble, leader of the rival Ulster Unionists, left Mr Paisley all but speechless. It may prove the definitive moment of the election to be held on November 26th.

Since the campaign began, Mr Trimble, former first minister and still the peace process's best hope among unionists, had been asking for a televised one-to-one debate. Mr Paisley had never been available, yet he arrived with posters and a posse of journalists outside Ulster Unionist headquarters to ambush Mr Trimble. It was a typical Paisley stunt, but it misfired.

Mr Paisley had just begun to read a mocking speech when Mr Trimble arrived with colleagues. “Why are you hiding, Ian? I see the monkeys but where's the organ-grinder?” he shouted. Inches away, Mr Paisley's able deputy, Peter Robinson, shouted back, “I'd rather be a monkey than a buffoon like you.” Mr Paisley stood by, his now shrunken shoulders drooping. The mouth which for 30 years has yelled “traitor” and “Judas” at Mr Trimble's predecessors managed only a pale version of a laugh once described as carnivorous.

Next week's election is the latest attempt to reinstate Belfast's power-sharing devolved government. But although from one angle all seems dark, the most likely outcome could bring dramatic progress. Mr Paisley's Democratic Unionist Party (DUP), always the outsiders, may at last displace Mr Trimble's Ulster Unionist Party (UUP) as the biggest unionist party. More likely they will make gains, then an alliance with Ulster Unionist dissidents in the newly elected assembly.

That leaves the possibility of Mr Paisley rather than Mr Trimble in command of most unionist assembly support—and theoretically in position to become first minister. But the post is a joint one, with a deputy to be chosen from nationalists, and the IRA's political wing Sinn Fein are on course to be the biggest nationalist grouping. Mr Paisley has refused to compromise with nationalists all his life and has said Sinn Fein as well as the IRA will have to disband before he will sit in government with them.

Deadlock? No, posturing: two DUP ministers were in the last executive, one of them the pragmatic Mr Robinson. This week's street encounter confirmed views that it will be Mr Robinson, not Mr Paisley, in line for the next assembly's top post.

After the count there will be much manoeuvring. Nobody expects a swift revival of the assembly. But whatever the results, the spat on the street means a new day is dawning. Mr Paisley's dark shadow, damning all compromise, has been largely responsible for Mr Trimble's difficulty in delivering moderate unionist support for a settlement. Mr Trimble, Mr Robinson and Northern Ireland may all breathe more easily in future.

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Small houses

The amazing shrinking house

Nov 20th 2003
From The Economist print edition

Smaller houses bring people together, unfortunately

BRITISH buyers have known for a while that properties are getting more expensive. Now it turns out they are shrinking too. According to the Royal Institution of Chartered Surveyors, the typical new house today is 55% smaller than one built before 1920.

Though households are getting smaller, this alone does not explain the extent of house shrinkage. Buyers of bright red bricks must put up with narrower doors than were standard 80 years ago, as well as windows that are closer together. And though the average height of a homeowner has increased by about 3% since 1920, ceilings have descended by over 20% to hover just above their heads.

Turning Mies van der Rohe's architectural maxim upside down, more is now less. Campaigners for good design note grimly that Barratt and Bellway, two of Britain's most profitable building firms, have mastered the conjuring trick of creating more rooms by lowering ceilings and bringing walls closer together.

Why has this happened? Largely because buying new land to build on is expensive: the price of land in England has doubled in the past decade. Opposition to new developments and a tortuous planning process also put up costs. Planning applications that used to take around eight months now take almost two years.

Complaints to police and local councils about noisy neighbours are common from the occupants of new houses. In part this is because insulation regulations have not changed since the 1950s, while noise-making technology has got a great deal more effective. But commercial pressures also play a part: developers taking advantage of the premium on a detached house are building rows of homes with one metre gaps between them. And housebuilders line the walls with prefabricated plasterboard, through which sound travels more readily than it does through old-fashioned walls coated in plaster.

Houses are getting taller in response to the squeeze. Most new houses are now built with an extra floor or half floor on top. This allows “zoning” within a house: parents can banish noisy children upstairs or retire to the attic themselves. According to David Birkbeck of Building for Life, “people who live in three- or four-storey houses have a more successful family life”.

Indeed the real nuisance for new home-buyers may come from inside, not outside. A report from the Office of the Deputy Prime Minister has found that household members are keener to get away from each other than they are concerned about the spaces between them and their neighbours. No amount of plaster can save you from the family.

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Inflation target

Hiccup ahead

Nov 20th 2003
From The Economist print edition

How Gordon Brown will gain from switching the inflation target

IF YOU had to pick one reform that has done most to improve Britain's recent economic performance, the decision to target inflation would be a front-runner. Since the policy was introduced in 1992, in the wake of Britain's humiliating exit from the European exchange-rate mechanism, inflation has been tamed. Formerly high and erratic, it has become low and stable.

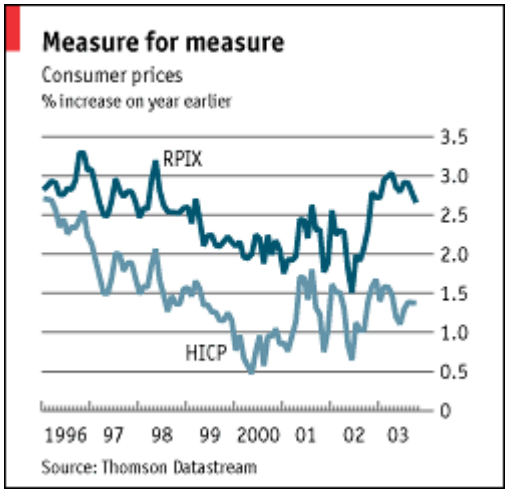
Over the past 11 years, chancellors have changed the precise formulation of the target. The current goal is an annual inflation rate of 2.5%. But throughout this period, the measure used for the target has remained the same: the retail price index excluding mortgage-interest payments (RPIX).

Not for much longer. In June, Gordon Brown announced his intention to switch the target measure to the Harmonised Index of Consumer Prices, familiarly known as “hiccup”. The decision was interpreted as a pro-euro gesture, sugaring the pill of the Treasury's assessment that Britain was not ready yet to join the euro, since the European Central Bank also uses this measure of inflation. Mr Brown said that adopting HICP would help to foster Britain's convergence with the euro area.

Now comes the next step. On December 10th, Mr Brown will announce what the precise target for HICP will be when presenting his pre-budget report. A rate of 2% is expected. So does this mean that Mr Brown is aiming for lower inflation? Not so fast. The latest figures show that inflation is rising at 2.7% according to RPIX but at only 1.4% according to HICP.

Although the gap between the two inflation measures is longstanding (see chart) a substantial chunk of it should disappear soon. At present, RPIX inflation reflects rapidly rising housing costs that are not included in HICP. For example, it has been pushed up by this year's 13% hike in council tax. It is also registering the impact of rising house prices on the long-term cost of maintaining a home. Provided that council-tax increases next year are more modest and house-price inflation abates, the contribution from housing expenses to the difference between RPIX and HICP should diminish.

However, there will still be a long-run 0.8 percentage-point gap, according to Stephen Nickell, a member of the Bank of England's monetary-policy committee. This arises mainly from different methods used to average raw price figures. It is also because council taxes are likely to carry on rising faster than RPIX inflation; and because house prices should rise in the long term somewhat faster than inflation.



What this means is that a 2% HICP inflation target would be a looser one than the 2.5% RPIX target. If Mr Brown chooses a 2% HICP target, it will be broadly equivalent to raising the current RPIX target to 2.75%. This means that monetary policy over the next year or so will be somewhat looser than it would otherwise be.

A little extra inflation should help the chancellor overcome some of his budgetary difficulties, points out John Hawksworth, economist at PWC, an accountancy firm. It will boost the Treasury's cash tax receipts but spending is likely to be held at already planned cash limits. Mr Hawksworth suggests that the change could lower public borrowing by as much as £5 billion in four years' time.

The public will find the switch to “hiccup” confusing and indigestible. But Mr Brown could find that it gets his borrowing down rather nicely.

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Outsourcing jobs

It's not just India

Nov 20th 2003
From The Economist print edition

And it's not just call centres: high-grade jobs too are leaving Britain

HE IS a senior underwriter for Friends Provident, a life insurer. The lives that concern him are British. But he is in Pune, India. He might be a civil engineer designing a bridge in Britain for a British client—from eastern Europe. Or selling, for a British client, from South Africa. Six months ago, the lament was that British call-centre jobs were fleeing to “Bangalore”, the catchword for India's information-technology sector. In fact the jobs being outsourced are not just low-level call-centre ones, nor are they going just to Bangalore, or India, but to almost any country where wage levels are low but the needed skills are not.

A survey for the Confederation of British Industry this week put some figures on the trend. One in six of the 30% of firms that had relocated work overseas in the past couple of years had sent call-centre work abroad; one in four had sent IT work. The work is not just maintenance of existing IT systems either: firms such as United Utilities are having their programs written in India.

Plenty of routine financial back-office work also is going abroad. But at least one big finance house too is sending IT design work to India. Tata Consultancy Services, a branch of India's huge Tata empire, reckons that up to three-quarters of the explosive 40% growth that it foresees in job-outsourcing from Britain next year will be India-bound; and that about half will be in jobs well above call-centre level.

Nor is India alone. It has developing-country rivals like Malaysia, the Philippines and, recently, South Africa. But eastern Europe too is in the field. A British arm of Philips, the Dutch electronics giant, recently had an internal audit done by Poles. DHL, a big logistics group, is to switch back-office work from west London to Prague. Tata's consultants are directing the outsourcing business won by their eight British offices (and several more in mainland Europe) not just to the 20,000-plus people that the group employs for this purpose in India: it has such people in Hungary too—and in China, which, given its impressive skill levels, many expect to challenge even India quite soon.

Should Britons lament, as the trade unions concerned understandably do? Some of the job “losses” are really no such thing. Americans have worried for decades about jobs “lost” not, as now, to India or China, but to Europe. Procter & Gamble, for instance, the American giant of detergents and much else, not only manufactures but has research centres worldwide: five in Europe, including one at Newcastle, another in Egham, with over 1,600 jobs between them. Another 1,100 people work in Newcastle providing shared business services for Europe, the Middle East and Africa. Britain gains. But does America lose?

In theory, all this work could be done in America. But there's an ancient business rule: be close to your customers. It still applies even in a world of instant communication. Cambridge-based ARM, a micro-processor firm, recently annsounced expansion plans for its design team. Much of the growth will be abroad. Not because it's cheaper, says Warren East, the entrepreneur who built the company, but because “that's where a lot of our market is”. That's why some Indian software companies (see article) are now setting up operations in America.

Some jobs really are at risk. But if they are low-grade, call-centre-type jobs, are they worth keeping?

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Bagehot

Peer today, gone tomorrow

Nov 20th 2003
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The difference between Conrad Black and Rupert Murdoch

"THE deferences and preferments that this culture bestows upon the owners of great newspapers are satisfying." So confided Conrad Black, later ennobled as Lord Black of Crossharbour, to his first editor of the *Daily Telegraph*, Max Hastings.

Things are no longer so congenial for Lord Black, who this week resigned as chief executive of his financially troubled Hollinger International, owner of the Telegraph Group, following an admission that he received millions of pounds of unauthorised payments. He remains chairman of Hollinger and can be expected to fight grimly to keep those deferences and preferments. But he is likely to lose—especially if an investigation into Hollinger's affairs by the Securities and Exchange Commission in America brings further revelations.

Consequently, the *Daily* and *Sunday Telegraph* are being hungrily eyed by prospective bidders. Michael Howard, the new leader of the Conservative Party, has already sought assurances from one of them, Richard Desmond, owner of both Express Newspapers and a soft porn empire, that the *Telegraph* will remain the Torygraph. Mr Desmond too has received a good deal of deference and preferment since emerging from the shadows to buy the *Daily Express* three years ago. Despite his embarrassing connections, as well as being petitioned by Mr Howard, he has become a regular guest in Downing Street.

The excitement over the fate of Lord Black's British newspapers has little do with their slight commercial importance and everything to do with the assumption that the proprietors of newspapers wield great power. It is an article of faith for the present government that blunting press hostility was critical to Labour's electoral recovery. The unrelenting Europhobia of the papers owned by Lord Black, Rupert Murdoch and Lord Rothermere is also one of the main reasons for Tony Blair's reluctance even to consider holding a referendum on the European Union's new constitution.

Just a few days before Lord Black's bombshell, Mr Murdoch had some fun teasing the government with the possibility that his papers—the *Sun*, the *News of the World*, the *Times* and the *Sunday Times*—might switch their support back to the Conservatives at the next election. Tony Blair had been brave over Iraq, but Mr Murdoch was worried that he might sell the pass when it came to that EU constitution. He had "a friendly relationship" with Mr Howard. Everything was "up for grabs".

It is understandable, up to a point, that politicians should court Mr Murdoch. His papers are the equivalent of the swing voters who decide the outcome of elections. Their support is conditional. Although Mr Murdoch has become more ideological over the years, particularly in his distaste for the EU, his approach to politics is essentially pragmatic. He is prepared to tolerate and even back moderate, left-of-centre governments as long as they do not pursue policies that are hostile to his business interests.

In common with many floating voters, Mr Murdoch's newspapers like to identify themselves with the winning side. The *Sun* can boast that since 1979 the party it has supported has always won. But that probably says more about Mr Murdoch's readiness to jump ship at the right time than about the *Sun*'s ability to influence the votes of its readers. For Mr Murdoch, while politics is important, it is business that drives him. To an extent, politics is only a means to an end.

None of which is true of Lord Black. He and Mr Murdoch may share broadly the same pro-American, anti-EU views, but there the similarities end. Mr Murdoch saw his British tabloids as cash cows to help fund his expansion into television and America. Lord Black was certainly eager to make money from the *Telegraph* titles he acquired (for a song) in 1986, but what really excited him was the entrée they could give him to

political and intellectual high society in Britain.

High Tory, lower circulation

Whereas Mr Murdoch has always maintained a typically Australian ambivalence about Britain and a contempt for its establishment, the Canadian Lord Black has a deep affection for both. When Mr Murdoch's business ambitions required him to become an American, he did so without a second glance at the mother country. Lord Black, on the other hand, embraced British citizenship so that he might take up his peerage—to Mr Murdoch, a ridiculous bauble.

It would also never have occurred to Lord Black to shift the political allegiances of his papers in the way that Mr Murdoch has and the adaptable Mr Desmond almost certainly would. Lord Black enjoys lengthy debates with his editors and sometimes fires off an angry letter for publication when they have displeased him. Other than that, his interference is limited to the tacit understanding that his passionately Zionist wife, Barbara Amiel, should be given as much space on the feature pages as she wants. As a good high Tory, Lord Black sees himself as a steward, faithful to history and tradition.

But the *Telegraph* papers' old school Toryism has not helped attract readers. Modestly profitable it may be, but the (fully paid for) circulation of the *Daily Telegraph* is around 600,000—about half the level when Lord Black took charge. The attrition caused by the decade-long price war initiated by Mr Murdoch has taken its toll, as has Lord Black's unwillingness to appoint editors or espouse policies likely to attract younger readers. Like members of the Conservative Party, *Daily Telegraph* readers are literally a dying breed.

Perhaps if Lord Black had been less smugly satisfied with the “deferences and preferments” that came with the *Telegraph*, he might have applied himself to running his business a little better. How different from Mr Murdoch.

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When east meets west

Nov 20th 2003
From The Economist print edition

Expectantly, and a little nervously, the new members wait to join the European club. Next year's enlargement is welcome, and timely. But there will be some shocks ahead, says Robert Cottrell

THAT humming you can hear from the direction of central Europe is the sound of countries hard at work, catching up with the rest of the continent. It is loudest in the Baltic states to the north, where national incomes will grow by 5-6% this year, seven times faster than in the fat, rich 15 countries of the current European Union. In Poland, Hungary, the Czech Republic and Slovakia (which this survey will call the "Visegrad" countries, after the declaration they signed in 1991) the growth rate will be about 3-4%, as it will be in Slovenia, the bit of the Balkans that works.

In May next year these eight countries will join the European Union, along with the Mediterranean islands of Cyprus and Malta. Bulgaria and Romania will follow in 2007, if they can reform and modernise fast enough. A queue of other hopefuls is forming for the years after that, with Croatia at the head, Turkey and the countries of the western Balkans—Albania, Bosnia, Macedonia, Serbia and Montenegro—some way behind.

This survey considers the impact that next year's European Union enlargement will have on central Europe, and the changes that preparations for enlargement have already wrought there. It wonders, too, what impact enlargement will have on the Union as a whole and its capacity to act. It applauds the acceptance of the central European countries into the European Union as something necessary, decent and beneficial to Europe as a whole. The preparations for entry have given these countries the motivation and the models they need to entrench or restore democratic institutions and market economies, replacing the communist and socialist ones previously imposed there. Even Eurosceptics in the new member countries should be pleased with this. A country well equipped to join the EU is a country well equipped to make its way in the world otherwise, if it chooses to do so.

As it happens, voters in all the central European countries due to join the EU next year have supported entry, often by large majorities, in referendums over the spring and summer. Now these countries have a last few months to prepare themselves for the shocks and strains, as well as the opportunities and rewards, that lie ahead.

One shock for many people may be the discovery that EU entry does not in itself bring wealth. The countries of central Europe will take a very long time to catch up with their western neighbours. The Economist Intelligence Unit, a sister company of this newspaper, has calculated that if the 15 countries of the current EU enjoy economic growth of 2% a year, and the countries joining in 2004 and 2007 (including Bulgaria and Romania) grow by about 4% a year, then it will take the new members, on average, more than 50 years to draw level with the old ones (see table). If the new members manage only 3% growth, it will take them 90 years to catch up.

Of course, growth rates and convergence rates will probably vary widely from country to country. The Baltic countries, though poor today even by the standards of central Europe, could become richer than most current EU countries within 30 years if they maintain annual growth rates of 5% or more, which they look fully capable of doing. Any central European country where the growth rate sags, on the other hand, will find that the pleasures of EU membership turn sour. That country will be saddled with the rules and expenses of a club meant for rich people, while its income per person remains far below the average and may even decline in relative terms.

The central Europeans also face challenges in adjusting to the EU's common visa and border regime, known as the Schengen system. Border controls have already disappeared across most of the EU. They should disappear among the new members too, but only after three or four years. By that time the new members are expected to have perfected tough border controls of their own against non-EU countries, including friends and trading partners. This prospect worries Poland, which would prefer a more open border with Ukraine; and Hungary, which wants to keep ties with ethnic Hungarian minorities in Serbia and Ukraine; and Romania, which is linked through language and history to Moldova; and Lithuania, which fears for its neighbours, Kaliningrad and Belarus.

The long hard path to prosperity 1

Time needed for new members to reach average income per person in EU15 countries

Countries	Average annual GDP growth per person, %	Years to catch up*
Bulgaria	3.8	63
Czech Republic	3.7	39
Estonia	4.8	31
Hungary	4.0	34
Latvia	3.9	58
Lithuania	3.8	53
Poland	3.8	59
Romania	3.8	80
Slovakia	4.0	38
Slovenia	3.2	31
Weighted average	3.8	56
Cyprus	3.4	21
Malta	4.1	29

*Reaching EU15 average GDP per person assuming average EU15 GDP per person growth of 2% per year

Source: EIU "Europe Enlarged: Understanding the Impact"

Poland is lobbying the EU to keep open the long-term possibility of membership for Ukraine, at least. But any scheme for drawing countries of the Commonwealth of Independent States (put together after the Soviet Union broke up) out of the Russian sphere of influence, and into that of the European Union, will have to include some very good ideas for keeping Russia happy at the same time, and it is not at all clear what those ideas could possibly be.

Russia does not seriously want to join the EU, even if its politicians sometimes flirt with the idea in public comments. It has nothing much to gain from further European integration, having little to sell directly into the European single market except gas, for which it would prefer national markets. If the EU should ever start talking about membership for Ukraine, or Belarus, or Moldova, it is hard to imagine Russia standing by indifferently.

The question of how best to manage relations between the enlarged EU and Russia is one that will recur in this survey, given Russia's propensity to fret about issues such as NATO's enlargement into the Baltics; the future of Kaliningrad; EU visa regimes; and the vacillation of Ukraine between east and west.

This survey worries, too, about possible tensions between the EU's older members and those newer ones which have regained their freedom and, in some cases, their independence, relatively recently, after decades spent taking orders from Moscow (or Belgrade, in the case of Slovenia). The currents of nationalism that helped overturn the communist order in central Europe in 1989-91 still run strong there, and not always far from the political mainstream. Central Europeans want an EU in which they and their countries are respected, not one in which they are bossed around casually by top dogs such as France and Germany. President Jacques Chirac's outburst in February—when he said that the central Europeans should have “shut up” instead of supporting United States policy on Iraq—betrayed just the patronising and bullying attitude which the EU's future members least want to encounter in Brussels. Forewarned by Mr Chirac, they will enter the Union in a more combative mood, complicating their future relations with France and its increasingly like-minded ally, Germany.

The EU may yet emerge the stronger for all this, if the combative mood of the central Europeans emboldens them to push harder for policies that make the Union work better. As poor countries with threadbare institutions, their interests should lie in opposing policies that impose new costs on industry and new regulatory burdens on government. They should insist on the freedom to keep taxes low, public spending down, and labour cheap. Those are also good policies, as it happens, for stagnant rich countries, of which the EU has more than its share.

So the EU's new members can do everyone a favour by fighting their corner on economic policy, and on foreign policy as well. They are, by and large, pro-American and pro-NATO. This applies especially to Poland, which is already a NATO member, and to the Baltic countries, which will join NATO next year, together with Slovakia, Slovenia, Romania and Bulgaria. Enlargement should favour a stronger pro-American and pro-NATO consensus within the EU, after the vacillations of the past year.

In short, the new members have the chance to show themselves a force for good in the European Union, and to show their voters at home that the EU is a force for good in national life. That means learning the wiles of Brussels, using EU money prudently, getting public spending under control, keeping business happy and keeping the public informed. Difficult to do, you might say. But this survey will include a few helpful suggestions. It begins in the Baltics; it moves on, through Kaliningrad, to Poland; it considers the politics and the economics of the Visegrad countries, the singularity of Slovenia, and the outlook for Romania and Bulgaria; and it ends, as you might expect, with a conclusion.

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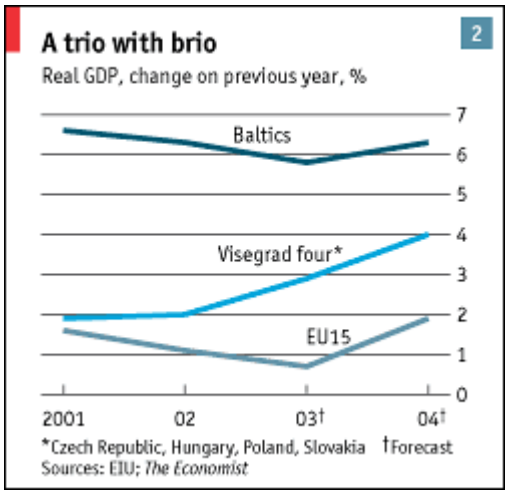
The great escape

Nov 20th 2003
From The Economist print edition

But integration remains a problem in the Baltics



THE international airport serving Riga, the capital of Latvia, lies a ten-minute drive from the city centre where the suburbs give way to the countryside. The old Soviet terminal, built in 1974, has been enlarged and rebuilt with all the glittering façades, shops, restaurants and lounges expected of a medium-sized modern airport anywhere in the rich world. Check the departure board, and the next flights out will probably be to cities such as Copenhagen, Frankfurt, Stockholm, London, Warsaw and Prague. As if to salute Latvia's imminent entry into the European Union, the country's main carrier, Air Baltic, added a direct flight to Brussels in September.

But walk into Riga's main railway station, on the grimier side of the city centre, and you are in a different decade. The station, like the airport, has been handsomely renovated. It is flanked by a smart new Finnish department store, a sign that the whole neighbourhood may be improving. The departure board, however, reads much as it did in Soviet times. The few long-distance trains that leave Riga are heading for Moscow and St Petersburg in Russia, Odessa and Lviv in Ukraine, Gomel in Belarus. They go there because the tracks go there. The Soviet Union demanded a railway system which connected the cities of the far-flung empire with Moscow first, with other Soviet cities a poor second, and with non-Soviet cities not at all. No direct trains run from Riga to Tallinn, the capital of Estonia. The trains to Vilnius, the capital of Lithuania, take a roundabout route. A fast line between the Baltic capitals is only now in the planning stage, and may take a decade to build.

The Soviet Union occupied Estonia, Latvia and Lithuania in 1940, and was forced out half a century later by declarations of independence in all three countries that began the break-up of the Soviet Union. So well have the Baltics managed most aspects of their transition away from communist rule that, these days, it seems almost churlish in most respects to insist on the Soviet period as a point of reference at all.

The Baltics have high economic growth rates, healthy public finances, low taxes and fast-rising productivity. An IMF report this year called them “in many respects perfect examples of small open economies”. Their domestic politics are messy but adequate. Trade with EU countries dominates their economies, much as trade with Soviet countries did once. A financial crash in Sweden would worry Estonia more now than another financial crash in Russia would: Swedish banks control most of Estonia's banking system, and Sweden is Estonia's second-biggest export market after Finland.

But, as with the railway lines, some aspects of the Soviet legacy do endure. The central market behind Riga's main railway station looks like a market in a big Russian city—and sounds like one too, because the main language spoken there is Russian. In Soviet times millions of Russians, Ukrainians and Belarussians were encouraged to settle in Latvia and Estonia, to Russify the countries and as labour for new industry. The Russian-speaking proportion of Latvia's population rose from 12% in 1939 to 44% in 1989, and of Estonia's from 8% in 1934 to 35% in 1989. Riga became (and remains) a majority Russophone city. Lithuania escaped such intensive settlement, partly because Soviet leaders thought it less likely to be troublesome and so allowed it more control over its own affairs.

Relations between the national and the Russian-speaking communities are remarkably peaceable in both Estonia and Latvia nowadays, all things considered, but they do remain distinct communities. Governments in both countries support integration, but came to that position only after a first few post-independence years in which the priority was to restore national languages and cultures maltreated in Soviet times. Language tests were imposed on Soviet-era immigrants who wanted citizenship, but as

many chose to stick with their old Soviet passports. Latvia still has 500,000 “non-citizens” among its residents and Estonia 172,000, about 20% and 12% of the respective populations.

The persistence of these large, stateless minorities has not, in one sense, been entirely unwelcome to Latvian and Estonian governments. Non-citizens cannot vote, and, because political parties partly divide down ethnic lines, the non-enfranchisement of Russian speakers has strengthened the relative power of the slender “national” majorities. It has probably speeded economic reform too, by weakening Russian-speaking parties that would have favoured more socialist policies.

But still, no country can feel entirely stable or secure when one in five of its residents shows a lingering loyalty to the country next door, and the more so when those people are encouraged in any sense of grievance by a Russian government always looking for ways to interfere. Now that economic reforms are secure and EU entry is in sight, it is time for Estonia and Latvia to close the gaps in society. Language is one such gap. Latvia's planned education reforms, requiring Russian-speaking secondary schools to switch most of their classes to Latvian next year, are controversial but necessary. Russia hates them, making their introduction in September a doubly delicate affair.

The uneasy political relationship has made it difficult for the Baltic countries to co-operate with Russia in economic areas, even when they might gain by doing so. When Lithuania privatised its oil refinery at Mazeikiu, the country's biggest industrial plant, in 1999, it tried hard to avoid a sale to a Russian buyer, even though the refinery depended for supply on oil pipelines from Russia. The government sold Mazeikiu to an American buyer—only to find that the American buyer sold it on to a Russian buyer. The row over that resale helped cost the Lithuanian president of the day, Valdas Adamkus, re-election in January. The Russian buyer, Yukos, has been running Mazeikiu perfectly well—though the arrest of Yukos's boss, Mikhail Khodorkovsky, in October, has introduced uncertainty about Yukos's own future.

Latvia has been less lucky with the troubled privatisation of its big oil-export terminal at Ventspils, fed by another pipeline from Russia. When Russia's attempts to buy the port cheaply failed, the country's state-owned pipeline monopoly cut off oil supplies to Ventspils this year.

The Baltic countries want to join the EU at least partly to get away from Russia. That much is obvious, if unspoken. But they do so at a time when Russia and the EU are looking for ways of moving closer together. The two trends are caught nicely in Lithuania's bid for EU help in connecting its power grid, built as part of the north-west Soviet system, into the Polish and European grids instead. At the same time, Russia is talking to the EU about inter-connecting the Russian and European grids across central Europe. Lithuania could find itself plugged back into Russia by a more roundabout route.

In a sense, this is a good metaphor. The Baltic countries are not joining the EU as a defence against Russia—they are joining NATO for that, and courting Russian anger for doing so. They want the EU to keep them connected with Russia, but by a more roundabout route. From May this will happen. They will be able to manage most of their relations with Russia through Brussels. They will be among friends there, and at a comforting distance from any Baltic-Russian border.

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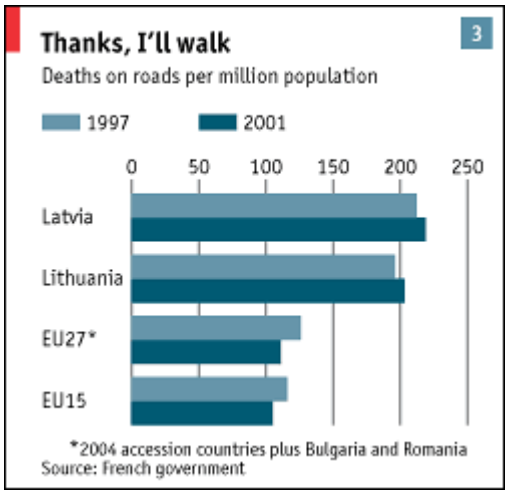
Europe's building site

Nov 20th 2003
From The Economist print edition

Plenty to do during the next 20 or 30 years



HIGHWAYS, railways, pipelines, power stations and the like are expensive things to replace. Unless you have lots of money to spend and no need for quick returns, you will tend to stick with the ones that you have. The countries of central Europe have been building their economies largely on the infrastructure inherited from communist times.

The pressure is growing to replace and renew. The roads of the accession countries are filling up with lorries and cars, under-equipped railways are slowing to a crawl, Soviet-designed nuclear power stations in Lithuania and Bulgaria will have to be closed as a condition of EU membership. Water and waste systems all have to be brought up to EU standards. For the next 20 or 30 years, central Europe will be a building site.

The sums to be spent appear (and are) huge, less so when divided among ten or 12 countries and spread out over ten or 15 years. Merely bringing central Europe's sewerage networks up to EU standards will cost about €40 billion ($46 billion), but central Europeans have negotiated delays of five to ten years before they are legally obliged to finish the job.

Bigger sums still are bandied around for spending on transport. The European Commission has drawn up a €220 billion wish-list of projects to improve communications across the enlarged Union, including a new motorway from Gdansk to Vienna; another from Hungary across Romania, ultimately reaching the Black Sea at Constanta; and a third across Bulgaria, linking Sofia with Thessaloniki.

Central Europe is horribly short of decent roads, Poland most of all. It has fewer kilometres of them even than Slovenia, a country one-tenth its size. While agreeing that more roads are needed, the commission wants the central Europeans to reverse the decline of their rail networks and so avoid the traffic-jammed fate of their western counterparts. Rail carries 40% of freight in central Europe, against 14% in the current European Union.

But the ease of getting into your own car, or loading goods into your own lorry, seduces central Europeans as readily as it does people everywhere. Private car ownership rose by 80% across central Europe in the 1990s, and more than doubled in the Baltic countries. Congestion is not the only, nor the worst, consequence. Bad roads and inexperienced drivers mean terrifying safety records. Latvia leads Europe for road-deaths, with a rate in 2001 more than twice the EU average. Lithuania is not far behind. This is one rare way in which enlargement will change the EU for the worse. The EU-wide average rate of road deaths per person will rise, overnight, by 5% on May 1st.

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Deplore it, then ignore it

Nov 20th 2003
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The problem of Kaliningrad

AP

One way out of Kaliningrad

AND now for a “counter-factual”, as historians say—an imagining of what might have been. What if the Baltic revolutions had failed in 1990? What if the Soviet Union had not unravelled there even as communism was collapsing at its centre? Remarkably, something does exist to guide our imagination. Russia still holds a piece of land on the Baltic Sea, caught between Lithuania and Poland: it is Kaliningrad, a city of half a million people and a surrounding region of half a million more. The most we can say is that the Baltic countries would have looked a bit more like this: and it is one of the most depressed and depressing places in Europe.

When the Red Army took what was then called Königsberg in 1945, it dynamited the city and killed or expelled the German population. The city and province were renamed Kaliningrad, after Russia's figurehead president of the day, Mikhail Kalinin. Russians and other Soviet nationalities settled the area. When Anne Applebaum, an American journalist (and a former writer for this newspaper), went to Kaliningrad in 1991 she could find only three pre-war Germans still recorded officially as living there, out of a former population of more than 1m.

The collapse of the Soviet Union has left Kaliningrad an “exclave” of Russia, separated from the rest of the country by Lithuania and Belarus. It is heavily militarised, the hometown of Russia's Baltic Sea fleet. Nobody challenged Russia's continuing claim to Kaliningrad when the Soviet Union broke up, nor do they do so now. But Russia talks edgily about the province in a way that betrays a measure of anxiety, and rightly so, about its tenure there.

Nationalist politicians in Moscow sometimes claim to detect signs that Germany is scheming to repossess Kaliningrad: for example, as settlement of Russia's sovereign debt to Germany. But nothing of the kind is in prospect. So complete was Russia's “cleansing” and levelling of the former Königsberg that Germany has long since relegated to the history books its feelings of kinship with the province.

The real worry for Russia is that Kaliningrad will fall so far behind its Baltic neighbours in development that its inhabitants will want to cut loose from the Russian economy and join the European economy instead. At the start of this year the average wage in the Kaliningrad region was about $150 a month, roughly half the level prevailing in Lithuania and a third of that in Poland. The rate of HIV/AIDS, at more than 350 cases per 100,000 people, is among the highest in Europe—perhaps ten times greater than in Lithuania next door. The development gap between Kaliningrad and its neighbours is likely only to widen further after Poland and the Baltic countries join the EU next year.

Russia has fiddled around with special trade regimes for Kaliningrad since 1991, supposedly to stimulate economic growth there. But these have done little to encourage investment and lots to encourage smuggling and corruption. Now Russia talks vaguely about using Kaliningrad as a “pilot region” for developing deeper relations with the EU. The EU talks back in similarly vague terms.

But nothing much is happening, mainly because Russia rejects the idea of a “Hong Kong” solution for Kaliningrad, allowing it to become a de facto part of the EU while still under Russian sovereignty. Russia's worries about secession incline it towards the opposite strategy, a strengthening of central authority and an insistence that Kaliningrad will get less, not more, special treatment. When Russia complains that EU enlargement will make Kaliningrad even more isolated, the permanent remedy it seeks is not a special deal for Kaliningrad residents, but visa-free travel between all of Russia and all of the European Union.

In fact, by Russian standards, Kaliningrad is not isolated at all. Most of Russia east of the Urals is accessible only by air, or by gruelling overland routes, and some areas for only part of the year. But to insist on Kaliningrad's isolation, and to blame the EU for worsening it, is useful diplomatically for Russia. It supplies a permanent grievance against EU enlargement that Russia can link to negotiations in other areas. If the EU feigns deafness, then a deniable hint that Russia might build a nuclear power station in Kaliningrad, or stockpile tactical nuclear weapons there, is sure to get its attention. What can the EU do about this? Not much, save to hope that the rising prosperity of countries around Kaliningrad will make a new arrangement, integrating it more closely with the EU, irresistible one day even to Russia.

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Could and should do better

Nov 20th 2003
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Poland should be smart as well as tough

POLAND is the big cheese of central Europe, accounting for roughly half its population and half its GDP. This enlargement is at least half about Poland too. An enlargement without it would scarcely have been worth the effort, or so thought Germany, Poland's champion when negotiations began five years ago.

Some of the warmth has since gone out of Polish-German relations, for reasons that puzzle the Poles. It has something to do with the spat over Iraq, more to do with a rethink on Germany's part about the EU and its uses. Helmut Kohl, Germany's chancellor until 1998, did put a European interest first, much of the time. His successor, Gerhard Schröder, is less inclined to shape Germany's EU policy by reference to its warmongering in the previous century. Mr Schröder's Germany is starting to behave more as the EU's other big countries do, putting the national interest first while proclaiming the European one.

Germany has come to see enlargement more in terms of the headaches it will bring. It will make new demands on the EU budget, and by extension on Germany, the main payer into the budget. It will bring millions of low-wage workers into the EU, half of them Poles, who can price German workers out of jobs even more easily than before. And it will mean more tedious negotiations, more governments to square and more ministers to persuade whenever Germany wants to have its way on a policy question.

With Germany less inclined to give a helping hand, Poland will have to work all the harder for what it gets within the EU. It will need to perfect two things, each of which it has only part-formed as yet. The first is a clear idea of the strategic aims it wants to pursue in Europe over time; the second is the battery of skills and resources to advance those aims in Brussels.

The skills and resources question is one where Poland ought to have an advantage over the other accession countries, at least in quantity. As the biggest of them, it can afford to support the biggest civil service, and so to engage across the whole dizzying range of issues discussed in the councils and committee rooms of Brussels.

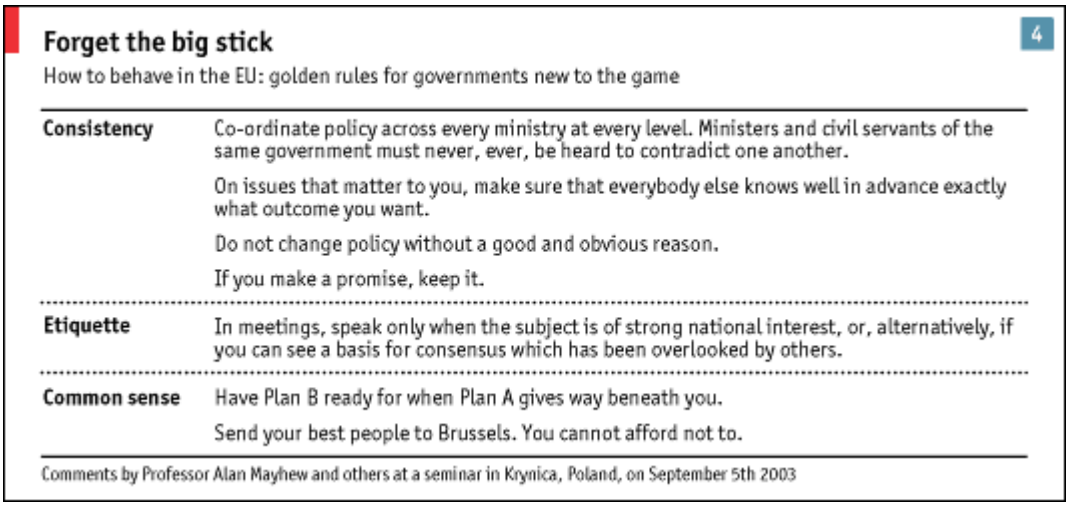
But current perceptions of Polish performance, at least from the Brussels end, are not uniformly encouraging. European Commission officials, speaking anonymously, describe Polish officials as “difficult to learn to deal with”...“extremely stubborn”...“very aggressive on their national interests”...“the ones who will argue the most”, according to a report by a lobbying company, Burson Marsteller.

Commission officials cannot be left the last word here. It is, after all, the job of national representatives to defend national interests, which can mean being stubborn and aggressive at times. But the trick in EU negotiating is to secure the maximum return for your stubbornness and aggression, which means making other people feel that you are deploying those qualities sparingly and constructively. Even the most notorious blusterers among current EU members, the Spaniards, try not to bring too many negotiations down around their ears. At the last minute they will trade away their opposition on the issue in hand against a handsome concession elsewhere, and they are respected for doing so. Poland needs to be viewed that way if it wants to play tough and still win.

But play tough for what? So far, Poland's politicians have been offering voters a worryingly short-term view of EU membership, talking as though the success or failure of it should be measured by the net quantities of quick cash Poland can get from the EU budget in farming subsidies and regional development funds.

This approach is bad. EU farm subsidies do nobody any lasting good. The same may be true of regional development funds, though the evidence here is more ambivalent (see article). Poland may well not get the money it wants. Other countries will be fighting just as hard for shares. And bidding successfully for EU development funds, even those earmarked for a given country, requires skills in project-planning and

monitoring which Poland has been slow to develop.



Forget the big stick 4

How to behave in the EU: golden rules for governments new to the game

Consistency	Co-ordinate policy across every ministry at every level. Ministers and civil servants of the same government must never, ever, be heard to contradict one another.
	On issues that matter to you, make sure that everybody else knows well in advance exactly what outcome you want.
	Do not change policy without a good and obvious reason.
	If you make a promise, keep it.
Etiquette	In meetings, speak only when the subject is of strong national interest, or, alternatively, if you can see a basis for consensus which has been overlooked by others.
Common sense	Have Plan B ready for when Plan A gives way beneath you.
	Send your best people to Brussels. You cannot afford not to.

Comments by Professor Alan Mayhew and others at a seminar in Krynica, Poland, on September 5th 2003

Poland will need to lift its nose from the small print of the budget if it is to shape EU thinking on another issue close to its heart: relations between the enlarged EU and the countries on its eastern flank, including Ukraine, Moldova and Belarus. Current EU thinking holds that these countries can be placed in the same general framework as countries in North Africa and the Middle East. They will be allowed degrees of access to the EU's “single market”, but they will not be viewed as candidates for EU membership, at least in the foreseeable future. Poland would prefer a special policy for the eastern European countries, which includes the possibility of membership.

Last year Ukrainians crossed the border with Poland 6m times, Belarussians 4m times. Most were small traders buying goods for resale at home, and giving a boost as they did so to the economy of eastern Poland, the poorest part of the country. Others were working cheaply in Poland as cleaners and building workers.

In October, as a step towards imposing full EU border controls and visa rules, Poland began demanding visas from its neighbours. These were given free to Ukrainians, and cost just €10 ($11) for Russians and Belarussians, but the effect was dramatic. Crossings at Polish border-points fell by more than two-thirds. The numbers may rise as more Ukrainians and others get multiple-entry visas for Poland, but the border is making its presence felt.

Poland wants Ukraine as a prosperous, stable and accessible neighbour, not as a poor and rackety one with a dodgy democracy and even dodgier nuclear power stations. It worries that the more Ukraine is shut off from the European Union, the more it will fall behind, economically and politically. Lithuania feels the same way about Belarus (though without wanting to do any favours for its oppressive leader, Alexander Lukashenka); Romania worries similarly about Moldova.

Finding an accommodation here will be difficult. The fate of these eastern European countries will not be determined by the European Union, that much is clear. Nor, however, is it likely to be determined by these countries' governments alone. It will be determined partly by Russia, their other great neighbour, which ruled them through the Soviet Union until 1991 and is still involved intimately in their domestic politics and their national economies.

Russia wants them as its protégés. It talks of forming a “single economic zone” with Ukraine and Belarus, and with Kazakhstan too. It is not clear what this might mean in practice, save that Russia is exploring yet again ways to strengthen its regional influence. The extension of American power into the Middle East and Central Asia, and the extension of the EU across Europe, may well be leading Russia to think that the age of empires has returned, and that it should mark more clearly its own sphere.

The EU can have, at most, some influence in eastern Europe, and Poland is right to want a big part in deciding how that influence can be used best. It is the great new frontier country between east and west. It knows Russia well (too well, some Poles would say). It is to be part of the Union. It is a trusted ally of America. It can be of service to everyone. But first it must be taken seriously within the EU. It must prove itself a strong and far-sighted country, not merely a big or a stubborn one. It must champion policies to make all of Europe prosper, and worry less about wheezes for putting cash into its own farmers' pockets. It must raise its game.

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Suspect subsidies

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Take the money but cut taxes too

THE European Union earmarks about €30 billion ($35 billion) each year for payments to its poorer regions, in the hope of helping them get richer. The accession countries will all qualify for shares of that money, though some may get less than they expect in the first year or two because they have been slow or careless in applying for it.

Those that feel robbed can console themselves with a recent book from the World Bank*, which finds that regional subsidies may be much less useful than the EU seems to think. The conclusions are mixed, but there is something close to a consensus among the book's contributors that regional policy functions as a second-best substitute for labour mobility. It can help bring jobs to people in backward areas, when people in those areas will not go to the jobs.

But it probably does so at a cost to efficiency, since it leads firms to make investments where they would not otherwise have made them. It may reduce regional disparities, in other words, at a cost to national growth.

Subsidies are best used to improve transport, communications, power, water, education and other infrastructure in depressed regions. The benefits are much more durable and widely distributed than if the same money is spent on a programme, say, of small business incentives. But beware perverse effects, even from good roads: firms may relocate away from depressed regions if they can ship their goods in more easily.

In the end it is national policies, especially in the areas of taxation and labour law, which determine a country's attractiveness to investment. Subsidies, from the EU or anyone else, will be counter-productive if they mitigate the effects of mistaken policies and so delay change.

What should poor but clever governments do? If EU money is there for the taking they should take it (or somebody else will). But they should use it to replace national spending, so taxes can be cut too. Since this contradicts the spirit of EU policy, they should also be economical with the truth when discussing it.

* "European Integration, Regional Policy, and Growth", edited by Bernard Funck and Lodovivo Pizzati; World Bank; Washington, DC; 2003

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The return of politics

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Freedom to choose in the Visegrad countries. But to choose what?

IF YOU plan a political career in central Europe, then hang on to your day job. Countries in the region changed their governments every 20 months, on average, in the first decade after communism. When Mikulas Dzurinda won last year's election in Slovakia with a centre-right coalition, it marked the first time a prime minister in any of the Visegrad countries had won two elections in a row. And even Mr Dzurinda's success may be short-lived. The squabbling inside his four-party coalition suggests it may have trouble holding together for a full term.

The right to change governments peaceably is one of the principal benefits that countries won for themselves by overthrowing communism. But the exercise of it does not seem to have yielded them all that much satisfaction. Campaigns are rancorous affairs in which political parties treat one another more as deadly enemies than as legitimate rivals. Business interests capture political parties, politicians seek bribes, programmes are incoherent or non-existent. Turn-outs are low, scandals are frequent. Racism, xenophobia and anti-globalisation are rarely far from the mainstream. No government holds its popularity for long.

So long as EU accession has been the biggest issue on national agendas, many voters may have judged political parties less on their professed ideology than on their competence in managing the necessary reforms. By and large, voters chose reasonably well on that basis. Mr Dzurinda's first government in Slovakia, elected in 1998, was the clearest example of the EU as a determining factor in national politics. A heterogeneous coalition, its main rationale was to shut out of power the country's previous leader, Vladimir Meciar, whose arbitrary rule was derailing Slovakia's EU hopes.

Once EU entry has been achieved, ideology may play a bigger part in central Europe's politics, and perceived competence a smaller one, which is not necessarily a happy thought. Euroscepticism will be more easily expressed when politicians can attack the EU without fear of upsetting accession talks.

The consolidation of national politics into durable party blocks continues at varying speeds across Poland, Hungary, the Czech Republic and Slovakia (known as the Visegrad countries after a declaration of co-operation signed at Visegrad, Hungary, in 1991). It is most advanced in Hungary, where the political system is dominated by two big parties, one nominally of the right and the other nominally of the left. The Czech Republic may also be moving in that direction. Poland and Slovakia will each need at least one more election to discover which among their many turbulent parties has real staying power.

In Poland and Hungary alike, post-communist parties (that is to say, parties linked to communist predecessors by a continuity of personnel but not of ideology) lead the current governments. Poland's prime minister today, Leszek Miller, was a member of General Jaruzelski's Politburo in 1989. Poland was first to vote post-communists into power, in 1993. They lost in 1997, and won again in 2001. Hungary followed a similar pattern, but with elections one year later in each case. The post-communists won power in 1994, lost it in 1998, and won it back last year.

It is easy now to see how the ex-communists in Poland and Hungary reformed themselves so quickly and did so well. As the elite of the old regime they had more than their share of clever, cynical and ambitious young people. They knew how propaganda and political parties worked. They could reach out to ex-party colleagues in the public service and in private business. By re-occupying the left of the new political spectrum they could appeal to millions of voters who felt poorer, or just less secure, in the market

economy. Their experience reassured businessmen, especially those with old communist ties.

The question was more one of how other political forces would arrange themselves against the post-communists. Here Poland and Hungary diverged.

The Hungarian anti-communists who took power in 1990 were finished by their defeat in 1994. Leadership passed to a younger generation, the 30-somethings of the Federation of Young Democrats (Fidesz). Their leader, Viktor Orban, became prime minister when Fidesz won the next election in 1998.

AFP

Orban, politician to watch

In Poland there was no such renewal. The Solidarity generation, an awkward mix of conservatives and liberals, went back into government a second time in 1997 and fell apart. The Polish right is still recovering from that debacle. Its supporters are scattered almost equally among recently founded nationalist, liberal and law-and-order parties. The main consolation for them is that the left is in at least as big a mess. Mr Miller is a tough political operator, but scandals and high unemployment have halved his government's popularity in the past year. Poland has yet to find its next generation of leaders.

The Czech Republic has gone a different route. Its Communist Party is an unreformed one fixed broodingly in place by the Soviet invasion of 1968. It attracts mainly protest votes, but in Czech politics there are plenty of those—enough to make the Communists the third-biggest party in parliament after the soft-left Social Democrats and the right-wing Civic Democrats. The election this year of Vaclav Klaus, a Civic Democrat, as state president, has restored the fortunes of the Czech right, and the Social Democrats are a divided and declining force. The time may be ripe for a realignment of parties. By holding its nose and allying with the Communists, the left wing of the Social Democrats could hope to create a strong party of the left. The Civic Democrats, if allied with the remaining Social Democrats, would emerge as an even stronger party of the right.

Mr Klaus's return has earned him a new respect. But of all central Europe's politicians, the one most worthy of study is Mr Orban, leader of Fidesz, who at 40 presumably has most of his life in politics ahead of him yet. He dislikes being called a nationalist, but the Hungarian national identity is at the centre of his politics. George Schopflin, a British-Hungarian academic sympathetic to Fidesz, says Mr Orban speaks for a Hungarian identity that is “hard-edged but not self-destructive”. The message is that “Hungarians have no need to be ashamed of being Hungarian”, says Mr Schopflin—which would be an uncontroversial point, save for the hangover of communist thinking in Hungary which links national identity to nationalism, and nationalism to fascism, a logic used still against Fidesz by its opponents.

The party disturbs many, in Budapest and Brussels and beyond, who see its focus on national identity as a challenge to European integration, even a retreat towards the politics of ethnicity. Fidesz worries neighbouring countries when it offers moral and financial support to their Hungarian minorities. But many Hungarians approve, and Fidesz is reaching out to those who hesitate. It is redefining itself as a Christian Democrat party, and not a “liberal” one, to reassure centrist voters. The opinion polls suggest that if an election were held in Hungary tomorrow, Fidesz would be back in power.

Moderate nationalism is a feature of politics almost everywhere in Europe. If it becomes immoderate, then peer-pressure within the EU can act as a check on the behaviour, and even the composition, of governments. When Joerg Haider's fairly far right Freedom Party joined the Austrian government in 1999, the hostile reaction of other EU leaders helped weaken the Freedomites' influence and moderate their policies, despite the clumsiness with which that reaction was expressed and the backlash it risked provoking in Austria. The unpasteurised politics of central Europe is sure to throw up more such challenges to EU orthodoxies, from the left as well as the right, and that may not be altogether a bad thing. It will at least put some life into the European Parliament.

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Too much of a good thing

Nov 20th 2003
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The Visegrad countries should aim for smaller government

FOR investors in central Europe, May 1st will come and go almost like any other day. True, the countries into which they have sunk their money will be joining the European Union, but they discounted that outcome some years ago, even if they could not say exactly when it would happen. The key issue for business was access to EU markets, and that has already come, thanks to a progressive freeing of trade over the past decade. The abolition of customs formalities at national borders next May will merely streamline things a bit.

EU enlargement might even be something that investors in central Europe would rather see delayed another couple of years. When it happens, EU laws on competition and state aid will mean an end to most tax breaks. Expensive new EU environmental and health standards will have to be respected and paid for. Governments may lose interest in reform once they feel the big political goal of EU entry has been achieved. Workers may demand bigger pay rises as they identify more readily and more enviously with workers in rich EU countries.

The Visegrad countries have plenty to worry about on those last counts, and most of all Hungary, which a few years ago was leading the region in both quantity and quality of foreign direct investment. Last year the inflow fell sharply, as did foreign direct investment globally, though not in central and eastern Europe. The first half of this year may well have seen a net outflow of investment from Hungary—partly because Hungarian companies are rich and confident enough to make big investments overseas, but also because foreign investors are shying away.

They complain about a tightening labour market, soaring wages and a tax-take which is high by regional standards. Public-sector wages rose 28% last year and almost 25% in the first half of this year, the fruit of extravagant promises made during last year's election campaign. Private-sector wages rose by 13% last year and almost 9% in the first half of this year. Three years ago the average wage in Hungary was a third less than that in Poland: now the wages are about the same.

The public-sector wage rises are all the more dismaying because there has been little attempt so far to link them with productivity rises. Hungary's ministries and government agencies are among the most over-staffed in Europe, while skilled labour for the private sector is running short. The government has acknowledged the problem by promising to cut staff in ministries by 10%, and in regional agencies by 6%. But its record on austerity is not good. Worries about public finances, and about the currency, have pushed interest rates up and investors' spirits down. “The government is saying that the corporate sector should do this and that, when the weak link in competitiveness is the government,” says a businessman.

If neighbouring countries seem to be doing better than Hungary, they have cyclical factors to thank as much as policy. Poland is emerging from two years of very weak growth which kept unemployment high and wages down. As growth recovers this year and next, investment should do so too. But neither the investment, nor the growth, will be as strong as it might be, because the government is shying away from getting public finances under control. It wastes far too much money on social-security schemes that are rife with cheating. Next year's budget deficit will probably exceed 5% of GDP, a dismaying figure for any country without a very good excuse, though not nearly as bad as Hungary's 9.9% deficit last year.

The Czech Republic can point to strong foreign investment, and wage growth that is only mildly worrying. But it, too, has problems with public spending. The problem, as in Poland, is a weak centre-left

government which could hardly get tough fiscal adjustments through parliament even if it truly wanted them. It has to settle for modest ones, and struggle for those.

The Czechs still lead the region in terms of foreign investment per person, and Prague is still the favourite city for a regional business headquarters. But they find themselves losing ground to Slovakia, from which they cut loose a decade ago when they thought it too backward.

Now Slovakia is punching above its weight thanks to a centre-right coalition government which is fragile politically but is launching bold reforms all the same. It promises a flat-rate tax of 19% on corporate profits and personal income next year, plus reforms in public pensions, healthcare and education. Those policies, coupled with some of the lowest wages in the region, have made Slovakia a new favourite among foreign investors, with inflows far outstripping the regional average. This year a French carmaker, Peugeot-Citroën, chose the country as the site for a big new car factory costing *euro*700m ($804m).

Peugeot-Citroën's investment confirms the strength of central Europe as a centre for car making. The concentration of assemblers and component suppliers in the Prague-Bratislava-Gyor triangle will attract further investment for a generation to come. The region's other leading industry, electronics, is moving up-market. Factories which made computer monitors last year will make television sets this year. But rising wages are forcing out industries such as textiles, clothing, furniture and food processing, which can move to the cheaper countries of south-eastern Europe.

It is only healthy for rising wages to price out jobs that add little value. But they need to be replaced with more skilled jobs, in science and the service industries, and those are jobs that can leave even more quickly than production-line ones if workers elsewhere start doing them better or more cheaply. It is a measure of how competitive central Europe has been until now, that foreign-owned firms provide half the manufacturing jobs there, twice the share they have in the EU. The world has wanted to invest. The trick now is to keep investors excited about the prospects for growth in the years ahead—not just foreign investors, but domestic ones too, who will matter far more in the long run.

The experience of other countries suggests that high growth rates in Hungary and its Visegrad neighbours will be possible only if governments there get smaller and more efficient, as those in the Baltic countries have done. Rich countries may feel, however misguidedly, that they can afford big public sectors and high taxes which redistribute wealth, but poor countries certainly cannot. Government spending accounted for 53% of GDP in Hungary last year (including net lending), 47% in the Czech Republic, 44% in Poland and 41% in Slovakia. It needs to come down, even in Slovakia. The inspiration here should be Ireland, everybody's favourite example of a poor country that got rich within the EU. It did so while keeping government spending below 35% of GDP from 1998.

Nor does it take for ever to cut spending, however eternal the attachment to big government might appear. Sweden cut social security and welfare payments by six percentage points of GDP between 1993 and 1998. To learn how, finance ministers can study the IMF's report on Hungary this year, which devotes 22 pages to comparative studies of fiscal adjustments in different European countries and the means by which they have been achieved. That must count as one of the heaviest hints ever dropped by an international financial institution, and one of the most helpful.

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When frontiers come down

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Borders and national currencies will remain

EIGHT countries of central Europe will join the European Union on May 1st 2004, but not as completely as they might like. The main sign of their accession will be the immediate abolition of customs controls at frontiers with other EU countries. But people crossing borders between old and new member states (or between new member states) will remain subject to passport checks, though EU nationals will not face any further inquiries about the purpose of their journey, their means of subsistence and so on.

Controls on people will remain until the accession countries become full members of the Schengen system, which requires them to secure their borders with non-EU countries, to adopt the EU's common visa rules, and to hook their national computer systems up to a common system for pooling information about crime and immigration. A vote of existing Schengen members is needed to admit a new country. For the central Europeans, that may come in 2007.

Adopting Europe's common currency, the euro, will take most central European countries longer still. As new members of the EU they are legally obliged to join the euro zone, when they have met various tests for doing so. The European Commission and the European Central Bank are advising them to take their time, for fear that their efforts to contain inflation and public spending will also choke growth.

Any country wanting to enter the euro zone must first show that it can keep its currency stable against the euro for two years. Accession countries were relaxed about this part of the bargain because they expected to be allowed fluctuations of up to 15% in the value of their currencies against the euro. But in May the European Commission shocked them by saying that a much stricter standard would apply: 2.25%, not 15%. The current message is that the 2.25% band will apply as a general rule, but that brief fluctuations up to a 15% limit will not necessarily count as fatal errors. Still, that is a tough target for countries with managed floats.

For Poland, the Czech Republic and Hungary, which have the biggest economies in central Europe, budget deficits pose at least as serious an obstacle to euro zone entry. EU treaty rules say euro zone countries must keep budget deficits below 3% of GDP (though some countries are already breaking this rule, putting in question the legitimacy of it). This year public sector deficits may well exceed 5% of GDP in all three countries. All three governments talk about reining in spending, but they are composed of weak coalitions with limited scope and limited willpower to do so.

Financial markets now pencil in dates as distant as 2009-11 before the three big countries are all safely inside the euro zone. Smaller and more fiscally disciplined countries—Estonia and Slovenia spring to mind—look set to force open the door of the European Central Bank first. If they meet the tests, the bank cannot keep them out. Euro zone entry is not only an obligation for the accession countries, but also a right, which the European Court of Justice can enforce if asked.

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Why Slovenia is not the Balkans

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A rich country and its poor neighbours

THE modern history books will tell you that Slovenia was part of communist Yugoslavia until 1991, and thus part of the Balkans. You would never guess so from spending a few hours in Ljubljana, Slovenia's pocket-sized capital. Architecturally, the city looks as though it is waiting for the Austro-Hungarian empire to sweep back and bring the latest gossip from Vienna.* Slovenia is the richest and primmest country in central Europe. It managed to sidestep most of the problems associated with post-communism, and most of those associated with the collapse of Yugoslavia too. Its neighbours in the western Balkans are doing less well. They, and Slovenia, make a study in contrasts.

The Habsburg heritage helped Slovenia manage its transition well, though the empire had passed almost out of living memory by 1991, argues Rudolf Martin Rizman, a sociologist at Ljubljana University. The empire was a “Rechtsstaat”, a state obeying the rule of law. Since the rule of law is usually seen as crucial to the consolidation of democracy in formerly undemocratic countries, it should not be surprising if a country sharing that legacy managed the process better than a country formed in an Ottoman tradition, or in a tsarist Russian one, Mr Rizman says in a recent paper.

Relative wealth played a big part, too. When Slovenia declared independence in 1991 it was the richest part of Yugoslavia. Its income per person was about $6,300 a year, similar to the level of wealth at which the demand for democracy has grown irresistible in other societies around the world, from Spain to South Korea.

Other regional powers could scarcely have been more helpful. The EU, emboldened by the success of its single market project, offered a new destiny to all central Europeans that wanted it. Germany was strong enough to push the EU into recognising Slovenia's independence, and Croatia's, in January 1992. Geography also helped, perhaps most of all. Slovenia presented no target for the ethnic land-grabs of Slobodan Milosevic's Serbia. It had no territorial ambitions to satisfy, and no ethnic schisms to resolve. It could preserve a functioning state throughout its transition, allowing state-building and democracy-building to reinforce one another. In Croatia, by contrast, democracy-building had to wait until the nation-state had been defined and secured through war.

A final factor in Slovenia's favour was the gradual nature of its transition. Yugoslavia's pre-Milosevic communists allowed the republics a fair measure of autonomy. In 1987, when Slovenia's liberals called openly for democracy and independence, the local communist leadership let them do so, and the federal government's attempts to clamp down merely speeded the process. An American political scientist, Samuel Huntington, has used the term “transplacement” to describe this course: when a strong opposition compels a regime to accept fundamental changes in the political system. It is more radical than a “transformation”, when the old regime controls the speed and character of the change, as happened in post-communist Central Asia. But it is less radical than “replacement”, where an opposition is strong enough to sweep the old regime from power, as happened in the Baltic states. It is that rare thing in revolutions, a workable compromise.

All this has enabled Slovenia to escape the “Balkans” altogether, if we define the Balkans by its ethnic conflicts and failed states. But even in the Balkans, some of the news is good these days. “The military are in the barracks, Milosevic is in The Hague, elections are regular,” points out Ivan Krastev, director of a think-tank in Sofia.

The bad news is that the succession of wars has kept most of the region dirt-poor. War has meant weak

states, and chaotic and violent conditions in which organised crime has taken deep root. Democracy prevails in form, but poverty is its enemy, just as wealth was its friend in Slovenia. Poverty breeds corruption, corruption breeds bad government, and if democracy has put bad governments in place, then democracy itself is vulnerable.

Another worry for the western Balkans is that they are losing the world's attention. If anything more does go wrong there, fewer people will care. America is cutting its troops in the region and may pull them out entirely next year. The European Union is cutting aid, from *euro*805m ($720m) in 2001 to *euro*537m this year. The reduced American presence leaves the EU to assume prime responsibility with little to offer except a diminishing line of aid and a remote prospect of EU membership.

Bold diplomacy costs nothing, and might do some good. The EU could cut Kosovo and Montenegro loose from Serbia, creating three states with nobody else to blame for their respective problems. But without much to its name in the way of boldness or diplomacy, the EU clings to the status quo.

To hope that something will turn up, as the EU is doing, amounts to a strategy of sorts and not necessarily the worst. A demonstration effect may work its way southward across the region as Slovenia joins the EU and NATO. Croatia has followed suit already, making an application for EU membership this year. Its example might possibly inspire Serbia, and so on. The trouble here is that Croatia, with the best will in the world on both sides, is at least five years away from joining the EU, and Serbia is as far away from being taken seriously as a candidate.

A more plausible and useful aim for the western Balkan countries in the medium term would be NATO membership. NATO is a simpler and more narrowly focused organisation than the EU, with a more transparent accession process. It demands basic democracy from its members, without interfering much in their domestic politics. It guarantees a strong tie with the United States, which the EU cannot do. More signals of encouragement to countries in the region would be a welcome by-product of NATO's summit next year.

Another useful strategy, odd as it sounds, might be public relations campaigns for foreign and for domestic audiences. Foreign, because the Balkans has been known to the world for the past decade through the prism of its most strife-torn country—Bosnia in the early 1990s, Kosovo and Serbia in the late 1990s, Macedonia in 2001. The sense of permanent chaos is slow to fade. The news needs to get through to investors, bankers, even tourists, that the wars are over there, that you can walk the streets of Tirana safely in the evening, that the economies of Bosnia and Macedonia are growing again.

Residents need to be stirred, too, into valuing and improving what they have. Public pessimism is a big problem for the region, says Mr Krastev. People believe their efforts are doomed and their governments hopeless, even when they are better off than they used to be and their governments are doing at least some of the right things. For every five people who have done better economically over the past few years, only one admits or believes as much. Such pessimism can be self-fulfilling if it deters investment and makes reforms easier to reverse. One key to making the Balkans work better, says Mr Krastev, is “getting the winners out of the closet”.

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* Present-day Slovenia fell within the Holy Roman Empire and Croatia within 15th-century Hungary. The Austro-Hungarian empire encompassed them both. It added Bosnia in 1878. When Europe's borders were redrawn after the 1914-18 war, Slovenia, Croatia and Bosnia became part of the “Kingdom of Serbs, Croats and Slovenes”, the precursor of Yugoslavia, together with present-day Serbia and Macedonia.

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The good, the bad and the muddly

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Question marks over Bulgaria and Romania

AP

Vadim Tudor, a greater Romanian

SAY what you like about the current Romanian government, the alternative would have been worse. When the ex-communist Social Democrats won the general election in November 2000, the runner-up was the Greater Romania Party, probably the furthest-right party to sit in any European parliament in the past 50 years. Its leader, Corneliu Vadim Tudor, has compared himself admiringly to Marshal Antonescu, the pro-Nazi wartime leader of Romania, and to the country's more recent dictator, Nicolae Ceausescu.

Mr Vadim Tudor was also the runner-up in the 2000 presidential election, and opinion polls suggest that he may do at least as well in the next one, which is due to be held late next year. Ion Iliescu, the veteran ex-communist who has held the president's job for most of the past decade, will be barred by the constitution from running again.

The politics in neighbouring Bulgaria are less extreme, but scarcely less eccentric. The ruling party, the National Movement Simeon II, was thrown together in haste before the general election of July 2001 as a vehicle for ex-King Simeon Saxe-Coburg, who returned to Bulgaria after his expulsion by the communists 45 years earlier at the age of nine. The Movement won the election handsomely, buoyed up by Simeon's promise to improve living standards in 800 days. When that failed to happen to voters' satisfaction, support for the ex-king's party fell sharply.

Freedom House, an American think-tank, gives Bulgaria and Romania mediocre ratings for their performance in areas such as the holding of free and fair elections, the rule of law, the independence of the press, the quality of law-making and the honesty of the public services. They can be classed as democracies, but not ones in which the democratic processes have consolidated, it says. On this reckoning Bulgaria and Romania are more like Serbia or Albania than they are like Hungary or Poland.

Economists are more upbeat. The IMF says Bulgaria and Romania have both been doing rather well. In July it called Bulgaria's record “excellent”. In October it praised the Romanian government's “sound macro-economic policies and progress in structural reforms”. It says both countries' economies should go on growing for the next four or five years at an annual rate of 5% or more.

From which side should the European Union take its cues? It has told Bulgaria and Romania that they can join the Union in 2007 if they are “ready” to do so. By “ready”, it means that they should have functioning market economies, stable democracies and the administrative and judicial capacities needed to enforce EU laws. Neither country is there yet. If the EU does plan to admit them in 2007 it will have to conclude the detailed negotiations by the end of next year and sign accession treaties with them in 2005. It has about a year to guess if they will make the grade.

The European Commission gave an interim view of the progress being made by Romania and Bulgaria in reports published on November 5th. It found that much remained to be done in both countries, but it was more encouraging towards Bulgaria. It reserved its more serious criticisms for Romania, including the view that Romania had not yet proved itself as a “functioning market economy”, a precondition for EU membership.

On balance, the commission seems right to have credited Bulgaria with greater progress. The country has plenty of problems, including a succession of governments addicted to regulation and red tape. But it

has been going fairly reliably in the right direction since 1997, when bad economic policy pushed it to the brink of financial crisis. A general election gave voters the chance to throw out the ex-communists who had made the mess, and to install instead the most successful reformist government south-eastern Europe had seen. Inflation was quashed, the currency pegged, the banking system rescued.

When the 2001 election came round, fatigue with the perceived hardships of reform turned many voters to ex-king Simeon, who has been doing a fair job. His government has been slow with some institutional reforms, including vital judicial ones, but more through inefficiency than through any wish to block them.

Romania has been making strides too, but the politics there do not inspire quite the same hope. It is not the baleful presence of the Greater Romania Party alone which counts against the country, though it does cast a long shadow: the EU's worst nightmare would be to put an accession treaty on the table in 2005 and find President Vadim Tudor waiting to sign it. If anything, the political situation is improving slightly at the level of parties and policies. The ruling Social Democrats are talking less like nostalgic ex-communists and more like a modern, business-friendly party. The next election may well broaden their minds a bit further by forcing them into a coalition with one or both of the country's main centrist parties, the Liberals and the Democrats, which have been reviving under new leaders.

The Romanian economy is doing so well that the EU may even be a little harsh in its reluctance to recognise it as a “functioning market economy”. In some respects the market economy might even be said to function excessively well. There seems to be almost nothing, and nobody, in the public or private sectors, that cannot be bought for the right amount of cash.

The big problem for Romania is the rule of law, or lack of it. A survey conducted by Transparency International, an NGO, found this year that Romania was widely considered one of the most corrupt countries in the world, let alone in Europe. Property rights are weak. The public prosecutor has excessive powers. The judiciary is dominated by time-servers from the communist era. Last year the European Commission expressed “serious concerns” about judicial independence, and called for “comprehensive reform”, but far too little has been done since, says the Romanian Academic Society, a think-tank.

European leaders decided to let Greece into the club before it was ready, in 1981, partly on the grounds that membership would safeguard Greek democracy whereas exclusion might put it at risk. They could justify a similar view of Romania now, but they are not likely to do so. Romania has less sentimental appeal than Greece did 20 years ago, and the EU has plenty of enlargement on its plate without looking for more countries to add.

The greater doubt is whether an enlargement will happen at all in 2007, if Bulgaria alone is deemed acceptable by then. The EU might propose waiting another two or three years to give Romania some breathing space and to give Croatia, the next would-be candidate, a chance to catch up. This would be tough on Bulgaria —and unfair too, since the EU claims to treat each applicant on its merits. But on the positive side, the longer Bulgaria waits, the more the EU will be reshaped by the demands of the countries joining in 2004. Each passing year will make it a more diverse and broadminded club in which Bulgaria, and other new members, will feel much more at home.

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Towards an uncertain future

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Enlargement will mean a looser-knit Union

AFP

Will the Union flag?

GUIDED by treaties that scarcely any- body can understand, towards a destination on which nobody can agree, the European Union has survived, and often thrived, for almost half a century. The need for a lasting peace in western Europe gave it early momentum. It offered devastated countries the vision of a supranational order intrinsically more peaceful than the nationalism which had fed Hitler's war. The attractions of this order diminished for nation-states as the memories of war receded. But the collapse of the Soviet empire, and the opportunity to restore and rebuild the eastern half of Europe, gave the EU a new leading role. It offered a vision of freedom and prosperity for which countries hungered after decades under communist rule. This enlargement is the happy outcome of that offer.

History will judge the EU kindly for having done at least two great jobs well. But ask what great job it will do next, and the answer is far from clear. Some further enlargement may take place in 2007 and beyond, but the only truly sinew-stiffening challenge on the agenda there is the admission of Turkey, which remains at best a very distant possibility. Countries led by Germany and France want the EU's next great leaps to take it forward into a common foreign policy and a common defence capability. But these are projects which, if ever seriously pursued, will divide the EU more than unite it. Some older members, notably Britain, hesitate for political or ideological reasons. They dislike the implied threat to national sovereignty, and they fear adventures that might make Europe more a rival to America.

Some new members share these reservations, mixed with more pragmatic ones. It will take them another three years at least to become full members of the Schengen regime; perhaps five or seven years to join the common currency; and ten years or more to master and implement every last rule of the EU as it is today. They do not want the Union to be changing its rules and adding new ones from the moment they join. The new members will be a powerful lobby within the EU for as little change as possible, at least where change means new costs and burdens.

This counts as an unwelcome and even a dangerous situation for those who believe that the Union thrives on a diet of constant change. Big new projects draw governments together in constructive ways. They encourage experimental give-and-take. Inertia, by contrast, leaves governments to come together more in arguments about current policies, be they state aids, excessive deficit procedures, competition law or farm subsidies. Disputes run together easily and erode the general willingness of countries to co-operate at all.

There is real danger here, because the EU is still a fragile thing. It has never won the hearts and minds of all its citizens, the vast majority of whom identify obstinately with their nation-states. Nor does it have much coherence as a political project, now that it has abandoned supranationalism as its final goal without substituting anything else.

The term “political union” survives in EU rhetoric, but without a meaning. Governments are inadvertently demonstrating this point (or lack of it) with their losing battle to capture the Union's aim and scope in a constitutional treaty. They seek to increase the stability and legitimacy of the EU, but risk having the opposite effect. The EU will suffer a big psychological reversal if governments fail to agree on a text, and perhaps a crisis if some countries accept the document while others do not.

Where the EU has succeeded, brilliantly, is as a bureaucratic project. It is shaped, not mainly by its citizens' wishes nor by its founders' intentions, but by the deals done each day between ministers and civil servants in Brussels, usually behind closed doors, endorsed by a parliament to which few outsiders pay heed.

That is not necessarily a bad scheme. The participating countries are well-functioning democracies. Ministers act only within what they judge to be the tolerance of their voters. But enlargement from 15 to 25 countries next year will make the bureaucratic project much harder to manage. A 10% rise in traffic can bring gridlock to the centre of a busy city. A two-thirds rise in membership may bring gridlock to a busy EU. Misunderstandings and disagreements will multiply, even with goodwill on all sides. Two or three actively awkward countries will be enough to guarantee chaos. Other empires have over-extended themselves to the point of collapse, and the EU is at least courting this fate.

The case for optimism rests on the proposition that the EU's workings can adjust quickly and smoothly to a big increase in its size and composition. But a bigger EU will be a more fragmented EU. The countries in it will be far more diverse, whether measured by wealth, history, politics, geography or language. Their interests will be equally diverse. Sub-groups and alliances will form in pursuit of particular policies or priorities. This will be a healthy trend, a source of pluralism and innovation within the Union, so long as the blocks do not become too rigid or too exclusive. If they do become so, the risk will grow of a de facto split within the Union, putting in danger the good functioning of all Union-wide policies and institutions.

A more diverse and fragmented Union will be one that countries leave as well as join. None has left until now (though Greenland, a province of Denmark, did so in 1985), partly because members have bent over backwards to accommodate one another's vital interests. But the more the EU enlarges, the less drama there will be in the loss of a single member, and the less possibility there will be for making all the compromises needed to keep everybody happy. The draft constitutional treaty provides for the possibility of a country's secession, but has nothing useful to say about the transitional arrangements that might be needed.

To say that this enlargement will mean the most uncertain period for the EU since its founding, is not to say that this enlargement was a bad idea. On the contrary, it was the noblest use to which the EU of the 1990s could be put.

The accession countries will take time to find their feet, but they are joining after years of effort and they have motives at least as strong as any older member to make the EU go on working. By that, they mean an EU that goes on working in concrete ways, on things which benefit all its members proportionately: arrangements such as the single market, the Schengen system, perhaps the single currency once its teething troubles are past. They will have less enthusiasm for an EU that expects its smaller and poorer members to subordinate themselves to the ambitions of its bigger and richer ones, and which uses pieties about a political union to cloak that process.

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Corporate scandals

The fall of a media baron

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Toronto Star

A newspaper empire is put up for sale as its chief executive steps down in disgrace

“I'M STILL the chairman, I'm still the chairman of the parent company, I'm still the controlling shareholder—I'm chairman of the *Telegraph*.” Lord Black, who was ousted this week from his position as chief executive of Hollinger International, a newspaper company, is fighting desperately for his power and his reputation. For months he has denied allegations of bad corporate governance and financial strain. But this week the charges against him got much worse when the firm said that he, his holding company and his colleagues had taken $32.2m of “non-competition payments” from it without permission.

“There's no fraud,” said Lord Black, who controls Hollinger International through two other corporate structures and 72.6% of voting shares. But the investigation that found the unauthorised payments, headed by Richard Breeden, a former head of the Securities and Exchange Commission (SEC), is continuing, and the SEC itself has launched an inquiry. Lord Black and some colleagues could conceivably face shareholder lawsuits, civil or even criminal charges. The firm's board, which includes Richard Perle, chair of the Pentagon's Defence Policy Board, and Henry Kissinger, will be accused of failing to protect minority shareholders. If KPMG, Hollinger International's auditor, is found to have done a shoddy audit, it will be the latest in a long run of failures by the firm.

Hollinger International's revelation was a victory for Tweedy Browne, an American fund manager. In May, Tweedy Browne demanded that the board of Hollinger International look into non-compete fees, worth $73.7m in all, made to Lord Black, to Ravelston (a private firm owned by Lord Black which in turn controls Hollinger Inc, Hollinger International's largest shareholder), and to three senior executives. The payments were made as part of Hollinger International's sale of newspapers in America and Canada in 2000-01, in return for a promise that it would not compete with the buyers in certain places (see article). None of the cash went to the firm and its shareholders, says Tweedy Browne—only to Lord Black and other executives. Paying non-compete money to a controlling shareholder of a public firm, says Philip Stamatakos, a lawyer at Baker & McKenzie in Chicago, is highly unusual and smacks of self-dealing.

Black and Browne

Another of Tweedy Browne's requests was that the board should examine the way in which Hollinger International paid management fees to Ravelston. It also asked why Hollinger International sold newspapers to two firms controlled by people on its board and financed part of the purchases itself, a practice reminiscent of Enron's special purpose vehicles. When Hollinger International sold its Canadian newspapers, including half of the *National Post*, to CanWest in 2000, CanWest agreed to pay a management fee to Ravelston: again, says Tweedy Browne, it was Lord Black and his associates who benefited, not the firm and its shareholders.

Hollinger International started to investigate in June and found that $16.6m had gone to Lord Black's holding firm without shareholders knowing—worse than Tweedy Browne feared. In the case of another $15.6m transfer that did appear in Hollinger International's accounts, it was said to have been authorised by the board but had not been. So far the firm has removed Lord Black as chief executive and insisted that the unauthorised money be repaid by next June. The management contract between Hollinger International and Ravelston will cease in June, which will put financial stress on Hollinger Inc, which has big debts. Still, says Laura Jereski of Tweedy Browne, Hollinger International has not yet answered its questions and Lord Black should not remain chairman.

Rival newspaper owners will be relishing Lord Black's downfall, particularly because they can swoop upon Hollinger International's best assets—the *Daily Telegraph*, *Sunday Telegraph*, the *Chicago Sun-Times* and *Jerusalem Post*. Lazard is advising the firm on strategy, which will probably mean selling itself in bits. The jewel is the *Daily Telegraph*, Britain's top-selling broadsheet, which has a (fully-paid for) daily circulation of about 600,000.

The *Telegraph*'s readers are some of the oldest in an ageing, shrinking British newspaper market. But the paper could still be a good buy because its 10% profit margin should double if advertising normality resumes. As Britain's leading conservative paper, it has particular appeal for a buyer with a desire to influence politics (see article). Lazard is getting plenty of telephone calls, including one from Richard Desmond, who owns Express Newspapers and a stable of pornographic magazines. He is thought to have a head start on other bidders because he owns half of West Ferry Printers, printing press for the *Telegraph* and others, and the right to buy the other half if the *Telegraph* changes hands.

Telegraph hacks hope they will be saved from what one calls a “grotty pornographer”. The Daily Mail and General Trust, another British newspaper firm, is reportedly interested, as is Tony O'Reilly, who owns Independent News & Media. The *Telegraph* group's chief executive, Daniel Colson, is sounding out private equity firms about a management buy-out. Offers could come from an American newspaper company such as Gannett. Overseas firms and private equity funds would not face the antitrust hurdle likely for existing owners of multiple British papers.

Lord Black's newspapers in Chicago and Jerusalem face the same problems as the *Telegraph*: ageing readership and, in recent years, much lower advertising revenues. The *Chicago Sun-Times*, a tabloid, is the city's number two newspaper with a circulation of about 480,000. Its profit margin of 11% is lower than the American industry average partly because it has to compete with the more popular *Chicago Tribune*, a broadsheet. To help win the next generation of young readers—the biggest challenge for newspapers everywhere—both Chicago papers recently launched new daily tabloids—*Red Eye* and *Red Streak*. Neither is making any money.

The English-language *Jerusalem Post* is loss-making. Circulation has fallen because fewer English speakers are emigrating to Israel and it has a new competitor, an English version of *Ha'aretz*, a leading Hebrew paper. Like the *Telegraph*, however, the *Jerusalem Post* has some appeal because of its political clout as Israel's leading right-wing paper. The most likely buyer, says a former employee, will be a wealthy individual with strong pro-Israeli views. That, of course, describes Lord Black. In addition to whatever punishment the SEC and courts hand out, he will have the misery of watching other people influencing his newspapers.

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Non-compete fees

Pay for not working

Nov 20th 2003
From The Economist print edition

Another executive perk

THERE is yet another way, it seems, for top executives to dig freely into their shareholders' funds. After loan forgiveness, exclusive pensions and golden parachutes comes the non-compete fee. This week, Lord Black and some of his senior colleagues at Hollinger International (see article) were forced to reveal that, without approval from the group's board, they had (among other things) received $15.6m for guaranteeing that they would not compete with businesses that the firm had sold to CanWest, a Canadian media group.

At the same time, shareholders in BSkyB, a British broadcaster 35.4% owned by Rupert Murdoch's News Corp, were told that they had agreed retrospectively to pay a non-compete fee, allegedly of £10m ($17m), to Tony Ball, the company's chief executive until he resigned to make way for Mr Murdoch's son, James. Mr Ball will not work for a competitor for at least two years.

Clauses in employment contracts that restrict executives from competing with their former employers are nothing new. They are particularly common in professions from hairdressing to investment banking where departing staff, if unrestrained, can take key clients with them. But the law is imprecise as to how binding such restrictions can be. If too tight, judges may deem them to be an unreasonable restraint of trade, and overthrow them.

With lower-level staff, employers are, by and large, prepared to take that risk. With top executives, however, they try to reduce the risk by adding a sweetener. Mr Ball, it was feared, might decamp to ITV, a rival broadcaster in search of a boss. With £10m in his pocket, he has been persuaded to stay at home and watch programmes broadcast by others, though he probably cannot be stopped from working in markets where BSkyB does not operate.

Mark Edelsten of Mercer, a human-resources consultancy, says that the fees are yet another example of the way that “normal pay-management processes fail when it comes to executive board levels.” Companies that have sound methods for valuing and paying the vast majority of their employees abandon them when it comes to signing contracts with the top few.

But not all top executives are happy with their non-compete clauses. This week Martin Leach, a former head of Ford of Europe, sued his ex-employer for up to €60m ($72m) for wrongly announcing his resignation and then enforcing his non-compete clause in order to prevent him from taking a job as head of Fiat's car division. The law is clear that employees who can prove constructive dismissal are free to work for anyone who will have them.

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India's IT industry

Bangalore, Texas

Nov 20th 2003 | NEW YORK
From The Economist print edition

The Indians are coming

OFFSHORING, the process by which a well-paying IT job in, say, Dayton, Ohio, becomes a much lower-paying IT job in Bangalore, India, has been spreading terror through America's cubicle farms recently. But even as jobs go to India—this week, AT&T was the latest big firm to talk of shifting a chunk of its workforce there—the Indians are hiring in America.

This month, two Indian conglomerates, the Godrej Group and the Essar Group, each said they were to buy a struggling American call-centre firm. Wipro, an Indian IT services firm, has announced the purchase of two small American consultancies. Scandent, another Indian group with interests in the IT industry, has bought a minority stake in North American Benefits Network, which administers company health and benefits plans. Other firms flush with cash, such as Infosys, a big rival to Wipro, are said to be seeking deals.

Officials at Nasscom, the Indian software industry's trade group, say that their members have made cumulative investments of $350m abroad recently, most of it in America. Having cut their teeth subcontracting for big western firms such as IBM and Accenture, the Indians now want to build closer relationships with customers—big firms that are outsourcing everything from systems maintenance to accounting. To do that, Indian firms need to offer the ability to run call centres and the like from America as well as from India.

They are also trying to counter the push of firms such as IBM, EDS and Accenture into India, and of western IT service firms into the consultancy business, a move that threatens to strengthen western control of customer relationships. Wipro, for instance, has bought the energy practice of American Management Systems, a Boston-based consultancy, and NerveWire, a business and IT consultancy specialising in the financial services industry.

Pawan Kumar, chair of vMoksha, a young Indian IT firm, thinks that the Indians face a bigger challenge managing their American acquisitions than experienced American multinationals face in India.

At the least, these foreign purchases should help tackle a growing image problem. As Indian firms have sucked jobs out of America, worries have grown in India about a protectionist backlash in Washington, DC. Work visas are harder to come by for travelling Indian programmers. Indian firms also worry about American government use of data-protection and homeland-security laws to thwart business. Nasscom has retained Hill & Knowlton, a big PR firm, to help manage politics and the press in America and Britain (where offshoring is also a hot issue). Their goal, says Harris Miller of the Information Technology Association of America, an industry lobby group, is to convince Americans that they are not just Indian companies but “global firms, with a local face here”.

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Business in Russia

What's the deal?

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President Putin declines to say

EVER since the start of the investigations into Yukos, which led last month to the arrest of Mikhail Khodorkovsky, other Russian businessmen have been wondering if they will be next. Most assume that it was political influence-peddling that got the boss of Russia's biggest oil firm into trouble. Many could easily face similar charges of tax evasion and fraud (several already have, but seen them dropped). So, when Vladimir Putin at last agreed to see business leaders at a congress on November 14th, they were eager to hear his terms.

The meeting echoed one Mr Putin held in 2000, soon after his election. That was with a much smaller group, the so-called “oligarchs”. They were told they could keep their enormous wealth, grabbed during the free-for-all privatisations of the 1990s, but not the political influence they had enjoyed. After two of them, Vladimir Gusinsky and Boris Berezovsky, refused to obey and used their TV networks to attack Mr Putin, they were stripped of their assets and forced to flee abroad. The rest seemed to get the message, until Mr Khodorkovsky began this year to wield his clout in parliament and against the government.

So what are the new rules? Mr Putin would not say. Indeed, those at the congress were told that they must not even mention the biggest business and political scandal of the past three years, leaving the president to deal with it in a few enigmatic statements. In the closest he has come to admitting a political motive to Mr Khodorkovsky's arrest, Mr Putin said that “there is a view...that industrial policy today is nothing other than the attempts by some businesses to lobby their interests through state structures at the expense of other businesses.” He extended some olive branches, such as a concession on property rights, but hinted that business “could put some effort into developing a system of new social guarantees,” which was taken as a signal of future tax rises.

Mr Putin's vagueness is slowly shredding investors' nerves. This week the stock market fell to a three-month low on the news that Yukos faced a court challenge to its merger with Sibneft, a smaller firm, and that the two firms would soon lose tax breaks. (Share prices had earlier stumbled after the arrest of Platon Lebedev, an associate of Mr Khodorkovsky.) A new tax probe into Sibneft was also revealed. The president's gnomic statements allow officials to interpret them as they please, and use them as cover for their own crusades. Mr Putin has already had to contradict the natural-resources minister, who had said that Yukos might lose some oil licences.

But above all, it undermines Mr Putin's claim that he is interested in “improving the state institutions...in a systematic, public and legal fashion”. Rather than set clear rules, such as a law limiting political lobbying, he prefers, at least in this area, arbitrary power. That lets him keep crooked businessmen, who understand the coded messages, under his thumb. But it will not encourage the honest ones to grow.

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The cosmetic-enhancement business

Beyond Botox

Nov 20th 2003 | LONDON AND SAN FRANCISCO
From The Economist print edition

Rapid innovation is giving the cosmetic surgery business a lucrative lift

WHAT happens when you mix “Big Brother” with “ER”? “Extreme Makeover”, a popular reality show on American TV, that promises “a truly Cinderella-like experience by changing your looks completely in an effort to transform your life and destiny, and to make your dreams come true.” This is not just a matter of a hair cut, new outfit and trips to the gym: participants are shown before, during and after liposuction, nose jobs, breast implants and tummy tucks.

Not so long ago, much of society disapproved of those who had a breast enlargement or nose job. Cosmetic “enhancement” is no longer frowned upon—and not because customers have had their capacity to frown surgically removed. Cosmetic treatments have become almost commonplace, thanks to changing social attitudes and pressures and, above all, to technical innovation that is now starting to fulfil its potential. As a result, over the next few years, the industry providing cosmetic enhancement products and services should see sales and profits enhanced at least as beautifully as the customers' bodies.

A decade ago, the business was largely a matter of a surgeon and his scalpel. It was expensive. A traditional facelift could exceed $20,000 once surgeon's fees and hospital costs were included. Recovery was often bruising and long, with satisfactory results not guaranteed and reversal tricky or impossible in the event of disappointment. Today, however, new technology and products are making cheaper, “minimally invasive” cosmetic improvement increasingly the norm. This is giving many more customers what they want, says Ronald Moy, a dermatologic surgeon in America's mecca of makeovers, Los Angeles: something that makes them look good and can last for years, but without the hassle of long operations and recovery.

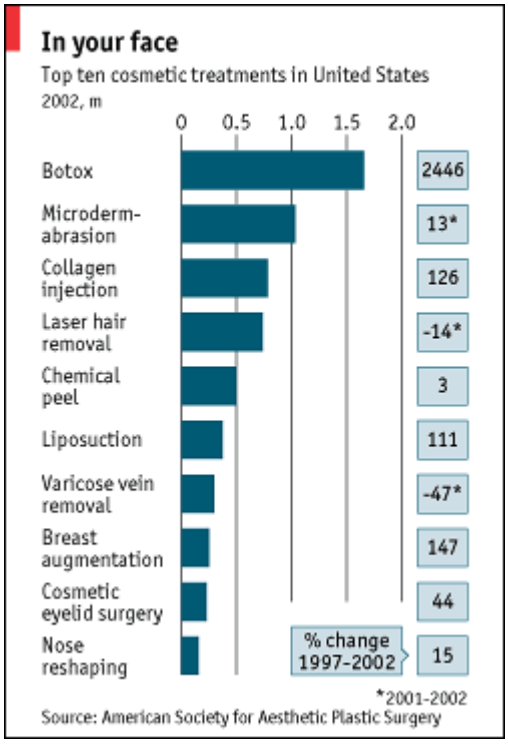
This has made it much easier for clients to “fine tune” their bodies with relatively frequent adjustments, often starting in their twenties, rather than wait for more radical treatment once their body has really started to go the traditional way of all flesh. As a result, customers are actually younger as well as looking younger. And there are many more of them.

Last year, roughly 6.9m cosmetic procedures were performed in America alone, more than three times the number in 1997, according to the American Society for Aesthetic Plastic Surgery. The business is also booming globally, especially in Asia—where a westernised look is increasingly desirable—and Latin America. Mike Moretti, of Medical Insight, a research firm, reckons that the global market in minimally invasive cosmetic procedures is now worth roughly $6.5 billion, and is growing by more than 25% a year.

The most popular treatment—nearly 1.7m in America last year (see chart)—is to reduce wrinkles by injecting Botox, a potent neurotoxin that is in the vanguard of the minimally invasive revolution. Botox now brings its maker, Allergan, $600m in worldwide sales. Revenues are forecast to rise by 20% next year by Corey Davis, an analyst at JP Morgan, as demand grows for cosmetic applications ranging from eyebrow sculpting to lifting droopy mouths and Botox's other, medical applications expand—such as treating migraines and stopping excessive sweating. While Allergan has the lion's share of this market, this could change, at least in America, if another version of the toxin, Dysport, produced by Beaufour Ipsen, a French drugs firm, succeeds in clinical trials now under way there. It could be on the market in America as early as 2005 if it wins approval from the Food and Drug Administration (FDA). But Botox is increasingly winning against Dysport in Europe, where its rival has long been available.

Other innovations are following the path smoothed by Botox. On November 21st, the FDA's advisory panel on plastic surgery was expected to consider recommending approval of a new group of “dermal fillers”—injectible products designed to restore youthful

firmness to tissue lost as skin components break down with age. For years, American cosmetic surgeons and dermatologists have used bovine collagen to puff up lips and fill in facial folds. But some patients are too allergic to tolerate the stuff, and others too squeamish, in the wake of mad-cow disease, to want it under their skin. The new products, from Q-Med, a Swedish firm, and Inamed, based in California, use hyaluronic acid, a naturally occurring molecule that helps give flesh its fullness.



Q-Med is also testing in Europe the use of hyaluronic acid in breast augmentation; Inamed, which makes silicone breast implants, is poised to put them back on the American market. Last month, in the case of Inamed's product, an FDA advisory panel controversially recommended easing restrictions imposed in 1992 after health scares about leaking implants.

Unlike silicone, however, hyaluronic acid is not a long-term treatment; according to Richard Glogau, a dermatological surgeon in San Francisco, the effects of hyaluronic-acid injections last up to six months. He is wary of materials that linger longer in the body and fail to age with what nature provided. Some other doctors beg to differ. They are expanding lips and erasing lines with “permanent” fillers, with names such as Radiance (catchier than calcium hydroxylapatite), which critics such as Dr Glogau says risks creating unsightly lumps and bumps that may require surgery later.

While some firms are banking on chemistry to make money in cosmetic enhancement, others are turning to physics. Lasers were first used in the 1980s to “resurface” the skin—the brutal process of burning off top layers in order to reveal fresh flesh underneath. Not only did this mean weeks of recovery, it also had nasty effects on non-white skin, often leaving Asian patients with dark spots.

Some firms that sell lasers for resurfacing, such as Israel's Lumenis and America's Candela, have now entered the photorejuvenation business—using newer laser technologies to remove wrinkles by stimulating the skin to produce collagen. These lasers are also used to treat acne, remove hair and deal with unsightly veins.

Last year Thermage, an American firm, launched the “scalpel-free facelift”, with a new device that uses radiofrequency to heat up the skin's collagen, which then tightens the face. This costs around one-tenth as much as a conventional facelift.

Light BioScience, an American start-up, claims that exposing skin to specific pulses from a light-emitting diode—the sort of thing found in a TV remote control—stimulates cells to produce new collagen, as well as inhibiting its breakdown; the firm says it is awaiting FDA approval to market its “photomodulation” device as a wrinkle reducer. Rick Krupnick, its boss, reckons these devices could be sold for home use.

In the eye of the beholder

Not everyone sees every aspect of the rise of minimally invasive technology as a thing of beauty. Minimally invasive techniques are also easier to deliver, which has increased the range of people willing to do so. Family doctors and even beauticians are entering the business. This has not pleased incumbents, who in some American states are lobbying for laws to limit carrying out the procedures to qualified cosmetic surgeons and dermatologists.

There is also growing concern in America about the use of materials that are not (yet) approved there—often smuggled in by doctors and patients from less intricately regulated and less litigious markets in Europe, Asia and Latin America, where they are more quickly approved. There is a booming American black market in imported hyaluronic-acid fillers.

Off-label or unauthorised use by creative physicians can be an engine of clinical innovation. Botox, for instance, was approved in America for the treatment of ocular spasm, only for doctors to put it to more lucrative (unapproved, but not prohibited) cosmetic use. On the other hand, unauthorised use certainly can damage a product's reputation and irritate regulators, says Anna Tenstam-Lundvall, vice-president of

aesthetics at Q-Med.

Yet this will be hard to stop while patients want it—and, unusually, this is a medicine for which they mostly pay the full cost themselves. As Art Caplan, a bioethicist at the University of Pennsylvania, says, “in cosmetic surgery, the doctor has become a waiter, and the patient is a client simply ordering from a menu of treatments.” Make that a rich waiter.

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China's steel industry

Steel magnolia

Nov 20th 2003 | SHANGHAI
From The Economist print edition

A boom in the industry is producing a potential global champion

THE new (female) face of Chinese business is 60-year-old Xie Qihua. As the boss of Baosteel, China's biggest steelmaker, Ms Xie is in the vanguard of turning China's vast collection of state-owned enterprises (SOEs) into globally competitive firms. Despite the rapid growth of China's private sector and massive investment by foreign firms, the country's transformation from a socialist backwater into something resembling a capitalist economy still depends in large part on what it can do with its vast collection of SOEs.

Bao on a (hot) roll

Performance of big steelmakers

	Cashflow per tonne shipped, 2002, $	Steel shipments, 2003 f'cast, m tonnes
Arcelor (Luxembourg)	37	41.5
Baosteel* (China)	**104**	**13.4**
Corus (Britain/Neths)	-5	18.8
Ispat (global)	21	15.3
Nippon Steel (Japan)	33	29.1
Nucor (United States)	24	17.3
Posco (South Korea)	93	29.6
ThyssenKrupp (Germany)	52	19.0

Source: World Steel Dynamics *Listed subsidiary only

With China's authorities still ambivalent about private involvement in state-owned assets, Ms Xie is a palatable compromise for the political bosses in Beijing. Although she describes herself as "an entrepreneur", she has little in common with the showy internet and property tycoons that dominate the nightlife and the headlines in Shanghai, where Baosteel is based. Her conservative trouser suit, unmade-up face and cropped hair—a brooch is her only concession to femininity—make the unmarried Ms Xie look like a colourless, safe Communist party *apparatchik*. But whereas her government connections are clearly first-rate—in 1997, when Beijing first formally embraced private business, she was made an alternative member of the party's elite central committee—her appearance is deceptive. With a degree in civil engineering from Tsinghua, a top university, and over 30 years experience in steel plants, Ms Xie is at heart a technocrat.

As general manager since 1994, and more recently president and chairman too, she has quietly turned Baosteel into the most technologically advanced and efficient steel producer in China. Her goal—self-imposed as much as centrally-mandated—is for the group to become one of Beijing's "global champions". Thus, it aspires to generate sales of 100 billion yuan ($12 billion)—enough to enter the rank of the world's top 500 companies—by 2005. Ms Xie is confident that she will hit her target two years early.

She has been partly helped by a booming market for steel. China will consume 257m tonnes of crude steel in 2003—a quarter of the world total—but produce only about 220m. Such rapacious demand has boosted global steel prices. Indeed, thanks to Chinese demand steel prices are on such a strong upward trend that President Bush may soon find himself in a position to abandon, if he so wishes, America's protectionist steel tariffs without causing significant further job losses in his domestic steel industry.

Baosteel, with a capacity of nearly 20m tonnes, is benefiting disproportionately from this rising demand, thanks to its strong position in the fastest-growing markets. It supplies half of the steel used in car factories in China, including the joint ventures involving Volkswagen and General Motors. The group also has a 47% share of the home-appliance market and half of the market for pipelines.

The credit for a push into more advanced steel, such as automotive sheets and tin for Coke cans, goes to Ms Xie, who continued to invest in them during the lean 1990s. Combined with the lowest cost base in Asia, that has made for impressive financial returns.

Baoshan Iron & Steel, the Shanghai-listed subsidiary of Baosteel, with capacity of some 12m tonnes, will generate a pre-tax margin of 21% in 2003, forecasts ING, a bank—unheard of for a steelmaker. World Steel Dynamics, an American research group, ranks the publicly-quoted group third out of the world's top 35 steelmakers, using a combined measure of profitability (cashflow per tonne shipped) and market

positioning (a combination of growth, efficiency and quality). Expansion, including building a fourth blast furnace, will raise capacity further by 2005, while adoption of fashionable western management techniques such as “Six Sigma” should boost production quality.

Yet behind all this red-hot progress, there is a dark side to Baosteel—and to SOE reform. Though China talks loudly of its desire to privatise public assets, in reality the state still runs the SOEs. Privatisation Chinese-style consists of putting the best assets into a new company and listing just a fraction of its shares, while the (typically) huge, unlisted, state-owned rump retains the inefficient bits. With estimated revenues of 43 billion yuan, Baosteel's listed company, employing some 15,000 people, accounts for less than half of the group's total. The unquoted rump consists of another seven smaller steel businesses, a trading arm and a motley collection of construction, IT and financial-services operations. This part of the group, in typical SOE fashion, takes care of social obligations, such as the housing, schooling, pension and medical needs of the group's 100,000-plus workers. It is also the holding vehicle for four loss-making steelmakers which the government forced Baosteel to take over in 1997—with the additional proviso that it could fire no more than 10,000 every year of the 180,000 redundant workers it was saddled with.

And Baosteel is lucky. As a comparatively new company, founded in 1978, it has fewer overmanned factories with rusting equipment than many of the SOEs that originated in the Mao era. Even so, it needs to clean up the rump, which (reportedly) made a pre-tax margin of barely 2% last year. Ms Xie admits that some of its diversifications, such as a foray into insurance, make little sense.

Yet shedding them will not be easy. Government interference, and the conflicting goals of promoting a free economy and maintaining jobs and social stability, lead to compromised business decisions. While Ms Xie claims that her board is fully independent, her vice chairman is also the firm's Communist party secretary. And Ms Xie still needs official approval for large capital investments, though she says that today she would at least not be forced to buy another bunch of loss-making rivals.

Forging ahead

Given all that, Baosteel's progress is remarkable. As the biggest producer in the world's fastest-growing and lowest-cost steel market, the group is a force to be reckoned with—and an attractive partner for foreign firms such as Arcelor, Nippon Steel and ThyssenKrupp that each has a joint venture with it. The group's listed arm is highly profitable and is using its growing resources to expand aggressively abroad: it is currently negotiating to build an $8 billion steel plant in Brazil—its $1.5 billion controlling stake would be one of the biggest foreign investments yet by a Chinese company. But at heart Baosteel is still an SOE, with all the inefficiencies, social obligations and political constraints this implies. Ms Xie has built a strong Chinese firm. But until the state loosens its grip, even China's aspiring global champions will struggle to achieve their potential.

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Face value

Software's great survivor

Nov 20th 2003
From The Economist print edition

The real message of Bill Gates's annual speech to the computer industry

EPA

MUCH has changed since Bill Gates made his first keynote speech at Comdex, an annual computer-industry trade show, in 1983. Back then his firm, Microsoft, was touting a now-forgotten spreadsheet called Multiplan and had just announced plans for a new program called Windows. As Mr Gates spoke, his father operated the slide projector. Some slides appeared upside down; others were fogged with condensation.

The contrast with this week's Comdex keynote, the 20th by Mr Gates, is striking. The dodgy slides have long since given way to a slick presentation, complete with a now traditional video interlude in which Mr Gates and his second in command, Steve Ballmer, send themselves up in the style of a recent Hollywood blockbuster. (This year they were in a spoof of “The Matrix”, complete with black sunglasses and balletic fight scene.)

Windows, just a prototype in 1983, is now the dominant personal-computer (PC) operating system, having seen off a host of rivals. The computer industry has mushroomed in size, gone through several booms and busts, and is now worth around $870 billion. Microsoft has become the world's largest software firm, and Mr Gates the world's richest man. His firm has also, of course, been through a bruising battle with antitrust regulators. But even as the landscape has changed around Mr Gates, his position as the industry's figurehead has remained unchallenged. Each year, for two digital decades, he has returned to Comdex to rally the industry, hold court with analysts and journalists, unveil new products and present his optimistic vision of the future.

Yet this year the mood at the show was unusually gloomy. There was much muttering about the sparsity of both exhibitors and attendees, whose numbers fell to around 50,000 this year from around 200,000 in 2000. Having given his speech in the spacious MGM Grand Garden Arena for years, Mr Gates was this year back in the familiar surroundings of the Aladdin theatre, which holds 7,000 people, half as many as attended the keynote at the height of the boom. Veterans grumbled that a once-sprawling show that used to take five full days to absorb could now be covered in an hour or two. Once the biggest annual show in Las Vegas, Comdex has lately been eclipsed by the Consumer Electronics Show (CES), which earlier this year attracted around 120,000 visitors. This mirrors the shift in the technology industry's centre of gravity, away from PCs towards sexier consumer-electronics devices such as mobile phones, games consoles, digital-video recorders and flat-panel TVs.

Microsoft faces the same challenge: its dominance in PC operating systems and office productivity software leaves little scope for growth, forcing it to look to new consumer markets. Tellingly, the firm now exhibits both at Comdex and CES. But although it is one of the titans of the computer industry, Microsoft has far less clout in the world of consumer electronics. Its smartphone software has been slow to gain adoption, its Xbox game console lags far behind the Sony's PlayStation 2 and its software for TV set-top boxes failed to gain much traction. Mr Gates's latest toy is a watch with a built-in radio, capable of receiving news updates, stock quotes, weather and traffic reports and instant messages. But after repeated delays, it has yet to go on sale, and it is difficult to imagine that it will create a big new market.

By referring back to his first Comdex speech in 1983, however, Mr Gates reminded his audience just how long (by the standards of the industry) he and his firm have been around, and how willing he is to play a long game. Microsoft's gradual establishment of its dominance in PC software, via its Windows and Office monopolies, owes as much to its ability to outlast its competitors as to clever programming or anti-competitive behaviour. Microsoft's deep experience of the computer industry means it knows what all the mistakes are, and what traps and pitfalls to avoid.

The trouble is, that experience, like the Windows monopoly, carries little weight in the consumer-electronics business. And in this new arena, Microsoft faces its two most daunting foes so far: Nokia, the world's largest handset maker, in pocket-sized mobile devices; and Sony in living-room consumer electronics. Both rivals have demonstrated their ability to borrow from Microsoft's own playbook. Nokia is off to a flying start in establishing its Series 60 software as the Windows of the pocket; and Sony's dominant PlayStation console technology, which it is now combining with other devices such as DVD players and satellite-TV tuners, is the nearest thing to Windows for the living-room.

But, judging by the long view described by Mr Gates, it is still relatively early days for Microsoft's consumer-electronics ambitions, and there are one or two hopeful signs. Motorola and Samsung, the second- and third-biggest mobile handset makers, have both announced phones based on Microsoft's smartphone software. Microsoft always regarded the Xbox as a trial run; it is now getting ready for the battle between Xbox2 and PlayStation 3, likely to start in 2005. And its new hybrid internet-TV technology, IPTV, is generating much interest.

Spam, spam, spam, spam, spam

Of more concern is that, back on home turf, Microsoft faces another worrying threat: the many security vulnerabilities of its own products. In his speech, Mr Gates said that closing loopholes exploited by viruses, worms and hackers was “the largest thing we are doing”. Rather than unveiling a clever new PC or mobile device, his first demonstration was of a piece of software that simplifies the management and installation of security patches, followed by a demo of a new kind of firewall and the announcement of new spam-filtering software.

Hardly thrilling stuff. But Mr Gates subtly reminded his audience that, for all his firm's woes, he has seen off many seemingly invincible rivals. Only a fool would suggest, as the industry shifts again, that he might not do so once more.

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Correction: Niall FitzGerald

Nov 20th 2003
From The Economist print edition

In last week's story on executive coaching, Unilever's chairman, Niall FitzGerald, accidentally appeared as Niall Ferguson. Sorry.

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About sponsorship

The future of retailing

Reinventing the store

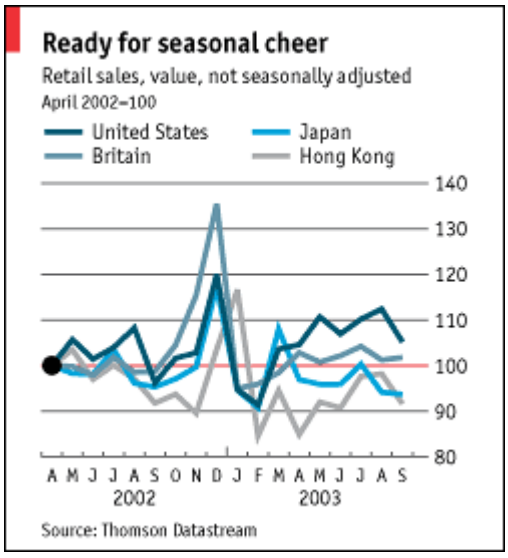
Nov 20th 2003 | CHICAGO AND LONDON
From The Economist print edition

REX

As the busiest shopping period of the year approaches, department stores (like the new Selfridges in Birmingham, above) are trying to rediscover their magic

FROM Thanksgiving in America next week, through Christmas and Japan's winter gift-giving, to the Chinese New Year in February, shops around the world enjoy their busiest time of the year (see chart). It used to be a time when shoppers flocked to department stores to be enthralled by the huge variety of goods on display and to be enticed with new ideas for gifts. The scene has become a movie cliché. But today more and more people are shopping elsewhere, and department stores have become an endangered species. Their owners are desperately searching for ways to bring them back to life.

On State Street in downtown Chicago, the Marshall Field's flagship exemplifies the challenges that department stores are facing everywhere. Many of the brands that adorn the “cathedral of all stores”, as Marshall Field himself called the present building, can also be found in the boutiques along nearby glitzy Michigan Avenue. Meanwhile, out in the suburbs, the shopping malls boast department stores too, ranging from J.C. Penney to Sears and more Marshall Field's, all of them selling much the same thing.



Throughout the malls there are speciality retailers, such as Victoria's Secret, Foot Locker and RadioShack. Then there are giant warehouse-like superstores that specialise in selling things such as shoes and home appliances. And as if that were not enough, gift hunters can also visit the supermarkets, which long ago ventured beyond selling just food. Finally there are the discounters, of which Wal-Mart, where 80% of American households now shop at least once a year, is by far the biggest. For those who prefer to stay at home, there are mail-order catalogues, the internet and TV-shopping channels to explore.

On a down escalator

Faced with so much competition, department stores have been steadily losing business to other retailers. In 1990, conventional stores accounted for 2.5% of total household income in America, according to the International Council of Shopping Centres. A decade later, their share had tumbled to just 1.6%. With combined sales of $91 billion in America last year, department stores are being left behind by the growth of discount chains such as Wal-Mart, which had combined sales of $139 billion in 2002, and warehouse clubs and superstores like Costco, whose total sales were $192 billion.

These changes are not confined to America. In Japan, some stores have decided it is more lucrative to rent out sales floors as offices rather than to try to sell merchandise. Even in China, where personal wealth is rapidly rising, the authorities in Shanghai earlier this year merged some of the city's big retailers, including the illustrious Shanghai No. 1 Department Store, because of increasing competition.

What the stores need is a new way to attract the attention of shoppers, who are now behaving quite differently from the way they did a generation ago. Many practise what is known as “laser-shopping”, entering a retail outlet to buy a particular product at a particular price, having already compared prices and quality online. By and large, such shoppers are happy to help themselves and have no need of a sales assistant.

AP

The discounters' alternative experience

For a large number of people, department stores are now a place to visit only during a sale. Some stores have almost thrown in their lot with the discounters, making their sales more frequent and trying to slug it out on price alone. But their cost structures make it unlikely that such a strategy will succeed. Many may simply have to close.

“I don't see a rosy future for department stores at all,” says Robert Blattberg, professor of retailing at Northwestern University's Kellogg School of Management. He suspects that a large number will quietly go out of business, just as many “mom and pop” shops did when department stores first appeared. America is heavily “overstored”, according to the Boston Consulting Group's Michael Silverstein. As store groups face declining sales, their profit margins will come under greater pressure.

Mr Silverstein is co-author of “Trading Up”, a book published last month which argues that there is a growing market for luxury goods, just the sort of products that used to be the department stores' forte. Nevertheless, the traditional, everything-under-one-roof, multi-storied department store is looking like a worn-out concept. As George Jones, the chief executive of Saks department stores told *Women's Wear Daily* earlier this year: “The model is so illogical. The model is messed up. There's a real win out there for a company that can break out of that mould.”

The show must go on

Two models for success are emerging. The first is what Joshua Chernoff of A.T. Kearney, a firm of consultants, describes as the “strong retail brand” approach. This is a store in which in-house brands feature strongly and managers take an active role in choosing inventory. Such a store is far more interested in promoting itself as a brand than any individual brand within it. In Britain, Marks & Spencer is the classic example of this approach; in America, Kohl's fits the bill. Such stores tend to have high operating costs, but they can command high margins, assuming that their in-house brands are both fashionable and popular. Marks & Spencer is still struggling to recover after getting that part of its equation wrong.

The second model for success is the “showcase”. This sort of department store not only sells other people's brands, but often gets the vendors of those brands to take responsibility for stock, staff and even selling-space, handing over a percentage of their sales to the department-store owner in return for their concession. For a store-owner, this can mean lower gross margins overall. But the compensation should be low operating costs.

The trick for a showcase, typically a flagship store in a big city centre, is to keep the customers rolling in. That means being an attraction in its own right, and a place where interesting things are always happening. Galeries Lafayette's flagship in Paris, for instance, recently offered free lessons by professional striptease artists to promote the opening of its vast new lingerie department.

Sears Grand design

The dangerous ground, as ever, lies in the middle, between these two models. And this is where Marshall Field's found itself at the end of the 1990s. But it is far from alone. Making department stores more convenient is seen by many big chains as the way to bring their customers back. Federated Department Stores, for example, which owns Bloomingdale's and Macy's (the store famous for staging the Thanksgiving Day parade in New York), has a strategy which its chief executive, Terry Lundgren, has called “reinvent”. This includes providing “upscale” shopping carts for customers, building wider aisles so they can navigate the store more easily, and installing automated price-checking equipment. Federated is not alone in putting shopping carts—albeit plush ones—into department stores. It is a move that often goes hand in hand with the elimination of sales assistants in order to save costs.

Another group trying something different is Sears, Roebuck, one of the first retailers to stake its future on the American suburbs. Sears no longer considers itself a chain of department stores, but a broad-based retailer. For future growth, it is looking outside the suburban shopping mall.

The first step is a new type of store called Sears Grand. “I would call it a pilot,” says Alan Lacy, Sears chief executive. “This is something we are going to do, but we are not sure yet about the optimal configuration.” The first Sears Grand opened near Salt Lake City, Utah, this autumn. It is a 210,000 square-foot (19,500 square-metre) building—and all on one floor. All other Sears Grands will be on big retail lots where they will go head-to-head with the discounters and warehouse operators, including Wal-Mart.

Most department stores have responded to the tougher competition by removing slow-selling items, and sometimes complete lines. Sears and J.C. Penney, for instance, have both abandoned cosmetics, a traditional product. Sears Grand is an attempt, but only in part, to reverse that process. Hence cosmetics make a comeback there, joined by fashion magazines and beauty products as an extension of women's wear.

The idea is to offer a broader mix of products for the convenience of the customer. Just as an ordinary Sears store sells refrigerators and freezers, Sears Grand will also offer milk, juice and ice cream to put into them. But it will not be a cornucopia. The product lines that are being extended are principally those that already draw customers, especially the company's proprietary brands. Sears has some strong in-house labels, including Craftsman tools and Kenwood white goods. In June last year it paid $1.9 billion for Lands' End, a leading catalogue and internet seller. Lands' End's garments are now being offered directly in Sears's 870 stores across America. The profile of a male shopper in the tools department is much the same as a Lands' End customer, says Mr Lacy. So, if Sears Grand works, that customer might arrive laser-shopping for a new wrench, but leave with an Oxford cotton shirt and a plastic gnome as well.

If department stores retreat from the suburban malls, who will move in? Discounters may take some of the empty space, but not all. Wal-Mart and Target (formerly Dayton Hudson) already have some outlets in shopping malls, including vacated department-store buildings. One reason for their takeover is that malls can be a relatively fast, cheap and less troublesome way to expand into areas where local opposition makes it difficult to build big new retail outlets. But the logistics of operating a warehouse-type outlet on several floors is more expensive.

Target practice

The discounters are also acquiring and building their own brands. Wal-Mart, for instance, is developing George, a clothing brand acquired with its purchase of Britain's Asda supermarket chain. It has also started selling a line of Levi jeans. The range is made exclusively by Levi for Wal-Mart and is branded as Levi Strauss Signature. This is supposed to differentiate it from the Levi range sold for higher prices in department stores.

But it is Target, based in Minneapolis and the owner of Marshall Field's, that is particularly good at this strategy. Target competes against Wal-Mart not only with low-price commodity items but also as a sort of upmarket, less cluttered discounter of other goods. It even employs designers, often young and up-and-coming, to create exclusive ranges for it.

What Target has realised is that, while people like bargains, they like smart-looking ones even more. Just as many American department stores are, with their shopping carts, becoming more like discounters, Wal-Mart and Target are showing how the discounters are taking over much of the role of the department stores. Consider clothing, the last redoubt for many department stores. Apparel has become an extremely tough business in which prices have been falling continually. The real price of a jacket, for instance, is 30% less than it was ten years ago.

As most clothing production has already moved to low-cost countries, there are not many big savings still to be wrung out of the supply chain. At least in the low-to-middle market, retailers wanting to increase their margins must persuade customers to pay a little more for fashionable or exclusively branded items. The discounters, with their inherently lower costs, seem set to undercut the department stores in offering chic clothes at low prices.

Another factor favouring the discounters, reckons Kellogg's Professor Blattberg, is the trend towards more casual business wear. The trend has had a huge impact on the sales of formal clothing, long a preserve of the traditional department store. People simply don't buy as many suits or ties as they used to.

Entertain me

To find a role model for the future, Marshall Field's should look to its own history. A century ago, Gordon Selfridge worked his way up from stock boy to a partnership in the Chicago business before setting off to make his fortune overseas. In 1909, he opened what eventually became a similar sort of department store in London. Called Selfridges, it put London's Oxford Street firmly on the map.

Selfridges is today the undisputed champion of the showcase business model. From a dowdy me-too store going nowhere, its transformation was led by Vittorio Radice, a former chief executive. Mr Radice has since joined Marks & Spencer, with a brief to transform its home wares. About half of Selfridges' floor area is now occupied by concessions. True, many department stores have areas within them dedicated to different brands, but the difference at Selfridges is that the vendors are strongly encouraged to be creative: the store wants exciting, vibrant areas that not only look very different, but do different things (such as body piercing).

Reuters

For its part, Selfridges sets itself up as something of a retail theme-park. It stages “events” to encourage people to visit and, as Mr Radice puts it, to buy a souvenir. This year the store staged an art exhibit called Body Craze, an “uninhibited celebration of the human form” in which 600 naked people rode up and down its escalators in full view of press photographers.

Does the Selfridges model deliver the goods? In the 12 months to February 1st this year, sales increased by 10.6% to £445m ($676m) and trading profits rose by almost 7%, to £44m. The company became private in July, when it was bought by an investment company led by Galen Weston, a Canadian who paid £628m, considered at the time to be a premium price.

Whereas the showcase model clearly can work, retail experts have doubts about how many stores it could support. Selfridges has plans to open a handful of regional outlets. The latest, in Birmingham in the middle of England, is true to one of Mr Selfridge's maxims that

department stores need to be architecturally interesting. Shown in the photograph at the beginning of this article, it is clad in aluminium and looks like something from outer space. It does not even have the Selfridges name on it because the building itself is supposed to provide its own form of branding. Mr Weston seems aware of the potential limits to this strategy and has, for now, called a halt to the store's expansion plans.

At Body Craze they didn't buy a stitch

Nevertheless, some of what Selfridges does may well be exportable to the thousands of department stores that are wondering what they can do to beat off the competition. Some of the subtleties in the showcase model could provide valuable lessons, reckons Peter Williams, formerly finance director of Selfridges and now its chief executive. For one, he says, stores could try to look less old. An essential part of the Selfridges makeover was to acquire a “younger centre of gravity”, which means a large amount of space dedicated to teenage brands.

Another ingredient is the need to recognise that today, especially for young people, fashion is jumbled up. It is no longer just about expensive, designer-branded clothing or cheap stuff. It is about both. Hence the need is to sell £5 T-shirts from Topshop and £500 handbags from Louis Vuittonunder the same roof.

Then there are the important “footfall generators”, the contrived events that lure people in. These include this year's Body Craze and a new spectacular coming up in which much of Selfridges will take on a Brazilian theme. The idea is not only to lure the inquisitive into the store, but also to give them a reason to come back.

When Marshall Field first set up shop in Chicago he saw his store as somewhere people could meet, dine and be entertained—as well as spend some of their new-found wealth. Some of these ingredients are returning to State Street: celebrity chefs prepare meals in the kitchen department and make-up experts offer facials under the store's Tiffany-glass ceiling. But there is no sign yet of striptease artists showing the sexiest way to remove undergarments, or of naked people riding the escalators. State Street may still need to become less stately.

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About sponsorship

The world economy

Altogether now...

Nov 20th 2003
From The Economist print edition

A global boom at last appears to be under way. Can the recovery last?

FED up with economic doom-mongers? One way to silence them, at least briefly, is to tell them that in the third quarter the world economy grew at its fastest pace for two decades. Much of this was due to the impressive lift-off in America, whose GDP grew at an annual rate of 7.2%. But by no means all of it: the recent recovery has been truly global, with most economies picking up speed.

Japan's economy grew at an annual rate of 2.2% in the three months to September. This was faster than expected and marked Japan's seventh straight quarter of expansion. The euro area is still lagging, but even its economies beat expectations, managing to grow by 1.6%. Recent business surveys suggest stronger growth in the fourth quarter, although much will depend on the euro's strength. This week the currency rose to a new high against the dollar of almost $1.20.

But by far the most striking figures have come from emerging economies, notably in Asia. China's GDP rose at an annual rate of 18% in the third quarter, seasonally adjusted; Singapore's grew by 17%, and Taiwan's by 24%. J.P. Morgan Chase estimates that Russia's economy expanded by 8%, Argentina's by 12.5% and Brazil's by 4% after two quarters of decline. In total, the bank reckons, emerging economies grew at an average rate of 8.7%, more than twice as fast as the developed world and their quickest pace since 1994, before the wave of crises that hit emerging markets from Mexico and Asia to Russia and Argentina.

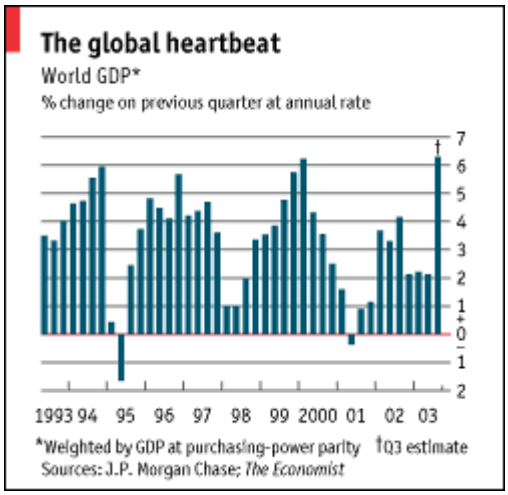
Totting up all countries' growth, weighted by GDP at market exchange rates, J.P. Morgan Chase says that the world economy grew by an annualised 5% in the third quarter. If instead the data are weighted by GDP measured at purchasing-power parity (the method preferred by the IMF, which adjusts for price differences between countries and so gives more weight to emerging economies) then global growth in the third quarter was an astonishing 6.3%, the fastest since at least the 1980s. Some of this, admittedly, reflects a rebound from a second quarter in which SARS severely depressed output in much of Asia. In the year to the third quarter, global growth was a more modest 3.2%.

After such a sprint, America and emerging Asia are almost certain to see slower growth in the current quarter and next year. Europe and Latin America, on the other hand, look set to speed up. Global growth in 2004 is widely forecast to be above its long-term potential rate for the first full year since 2000.

Although many commentators had tipped the world economy to recover in the second half of this year,

few had expected such a bounce. Is the recovery as good as it looks? And can it be sustained?

The GDP inflator



Some sceptics say the rebound in both America and Japan has been exaggerated by their GDP deflators, the price indices used to convert nominal GDP growth into real terms. There is clearly something odd happening in Japan. Nominal GDP is still falling—by 0.4% in the year to the third quarter. Yet real GDP growth looks strong because the deflator has fallen by 2.7%. Most economists think Japan's GDP deflator exaggerates the extent to which prices have fallen. If it does, Japan's real GDP growth is being overstated. It is certainly hard to believe that an economy is expanding strongly when total income is falling.

A few economists argue that America's growth is also partly a phantom, because of the way inflation is measured. If a computer now has twice the power of one that cost the same a year ago, its price is reckoned to have fallen by 50%. This “hedonic” pricing, which few European countries use, has helped to boost the measured real increase in America's IT investment this year. Business investment in computers has risen by 54% in real terms since 2000. In dollar terms, spending is 8% down.

Even if growth is being overstated, economies are undeniably perking up. So the Jeremiahs are looking for things that might go wrong. The biggest danger is the build-up of consumer debt in some economies, such as America, Britain and Australia, which may eventually cause households to trim their spending. Many economists dismiss such worries because, they argue, rising debts have been accompanied by large gains in the value of household assets, mainly homes, so consumers' net worth has not fallen.

Rising house prices have allowed consumers to borrow more and so spend more. But do higher house prices really create wealth, and thus substitute for the need to save? In its latest *Inflation Report* the Bank of England says that it is not clear that rises in house prices cause households to be wealthier in aggregate. Those who have yet to buy a home or who want a bigger one face a higher cost of living. Thus increases in house prices largely redistribute wealth rather than create it. Moreover, the price of homes can fall, whereas debt is fixed in value.

In general the euro area is much less burdened with consumer debt than America. But its Achilles heel is the risk of a further big rise in the euro. The euro is already up by more than 40% from its 2001 low against the dollar, but exchange rates tend to overshoot. In 1985-87 the D-mark rose by almost 100% against the dollar. In theory, the adverse impact of a stronger dollar on growth can be offset by lower interest rates. But the European Central Bank has been slow to cut them.

Another potential threat to global recovery is the risk of increasing protectionism. Fears were re-ignited this week when America's Commerce Department said it would set new quotas on imports of clothing from China (see article).

Such action is foolish, particularly when China has become a second powerful engine of global growth alongside America. Indeed, this year China is helping to pull many economies along as it buys more and more imports. It has become especially important for other Asian countries: both South Korea and Taiwan now export more to China than to the United States. Japan and Germany have both seen their sales to China rise by around 40% this year, while exports to America have fallen. China is now Japan's second-largest export market. If Hong Kong is included, it will overtake America some time next year.

China's integration into the world economy is the best hope for more balanced growth that relies less on America. American manufacturers view China as a threat. But if trade protection caused China to sputter, that would be a much greater danger for the world economy.

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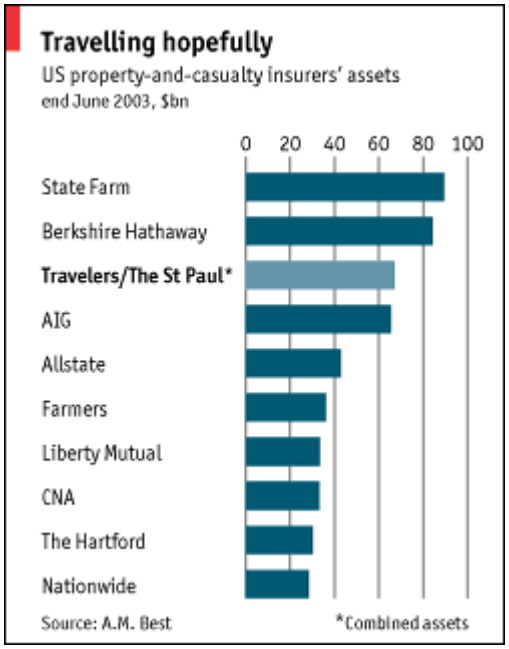
American insurance

An old-fashioned marriage

Nov 20th 2003
From The Economist print edition

Familiarity produces a merger with few modern precautions

JAY FISHMAN knows Travelers Property Casualty well. He spent 12 years there, becoming chief executive. In 2001, when Travelers was part of Citigroup, he left to run The St Paul, a Minnesota firm that is one of America's oldest property-and-casualty (P&C) insurers. Now he is back. On November 17th his old firm, which Citigroup spun off last year, announced a merger with his new one, sealed by a $16 billion exchange of shares. Mr Fishman will be chief executive of the combined firm, The St Paul Travelers. Travelers' boss, Robert Lipp, will be executive chairman.



The deal, the first big merger or acquisition in American P&C insurance for a couple of years, will create the biggest player after State Farm Group and Berkshire Hathaway (see chart). The partners' combined assets are $67 billion. The new company will cover most of America, because Travelers' presence is strong on the Atlantic and The St Paul is big in the Midwest and the South. Analysts also think that the merger will produce savings on back-office expenses and the like. Both companies have fairly recent experience of successful insurance mergers. Travelers bought Aetna in 1996 and The St Paul took over US Fidelity & Guaranty in 1998.

Conceivably, the union could be the first in a series. America's P&C industry is still fragmented compared with Europe's markets, where a few big companies, such as France's AXA, Germany's Allianz and Italy's Generali all have big shares. The “hard” market—industry jargon for rising prices—is generally believed to be about to end. When prices soften, financial bulk matters more.

Even so, in any further mergers insurers are likely to proceed more cautiously than Travelers and The St Paul have done. Mr Fishman and Mr Lipp are merging their companies lock, stock and barrel: all their assets and liabilities will be put into a single pot. This is unusual these days, because insurers are haunted by fears over liabilities from years or even decades ago. The last thing they want is to buy other insurers' troubles too. After so many years at Travelers, Mr Fishman presumably knows what he is letting himself in for.

Increasingly, says James Bartie of Moody's, a credit-rating agency, insurers are buying parts of other insurers' portfolios. A typical example is a “renewal-rights transaction”. The buyer takes over the acquired company's existing policies. Most customers will be able to renew their policies with the new insurer just as they could have done with the old. However, the buyer does not take on the seller's liabilities, which are spun off. This is less risky than a full-blooded merger, which could come with unfunded reserve liabilities relating to claims for asbestos, medical malpractice, mould, construction defects and breast implants.

During the past year, insurers have already started to buy one another's renewal rights rather than attempt full takeovers. In November 2002, indeed, The St Paul sold its reinsurance renewal rights to Platinum, a new Bermudian reinsurer. In April this year it bought the renewal rights of a mixed bag of policies, from car insurance to professional liability for architects, from Kemper, a middle-sized insurer. In May The Hartford, an insurer in Connecticut, sold the renewal rights of its reinsurance business to Endurance, a Bermudian insurer. And in September Royal & SunAlliance, a British insurer, sold most of

its American renewal rights to Travelers.

Thorough consolidation, however, will probably have to await a softening of the market. Property-and-casualty premiums rocketed after the terrorist attacks on September 11th 2001. For most of last year, and some of this, price increases were still in double digits. But by now rates for property insurance are flat and casualty premiums are rising only moderately.

Some of this is due to an increase in supply. Syndicates at Lloyd's of London are underwriting risks of £14.4 billion ($24.5 billion), compared with £10 billion between 1994 and 2000. More firms have created their own “captive” insurers. New insurers and reinsurers have set up shop in Bermuda. Increased competition and lower prices may push more established insurance companies to the altar—probably with carefully worded pre-nuptial agreements.

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Gold

A bug's life

Nov 20th 2003
From The Economist print edition

The price of gold is on the up. For how much longer?

LONG derided as an investment for those with a sense of history but little financial nous, gold this week broke through $400 an ounce, its highest level in seven years. A falling dollar and trade spats were the proximate causes of this latest rally. But gold is up some 55% from its low three years ago. Whether it approaches $850, its 1980 peak, depends on whether the recent rise reflects temporary factors or deep concerns about the world economy.

Gold is a commodity with resonance. For centuries it was used as currency, and it still holds an appeal for those who yearn for the days when big currencies were backed by gold. Enthusiasm for the gold standard ended in the early 1930s. A watered-down version was adopted after the second world war, with only the dollar backed by gold. Since Richard Nixon took the dollar off gold in 1971, the value of money has depended on central bankers' promises not to allow their currencies to be debauched.

For a long time these promises were not worth much. As inflation soared in the 1970s, so did gold. Only when Paul Volcker, the then chairman of the Federal Reserve, clamped down on inflation in 1979 did central banks start to be believed, and the price of gold fell.

It has popped up since on occasion, but the trend has mostly been downwards. The likes of Andy Smith, an analyst at Mitsui Global Precious Metals, a subsidiary of a Japanese trading company, thinks this latest rise will also be short-lived. In effect, he says, much of it reflects purchases by gold-mining companies of their own product. The rest he ascribes to hedge funds leaping on the bandwagon.

Because of the long downward trend in gold, mining companies hedged production by selling forward. Thanks to high interest rates, the forward price of gold was greater than the current, or spot, price. But as interest rates have dropped, selling forward has seemed less attractive. Moreover, shareholders, who wanted a purer play on gold, have become shirty about gold companies hedging production. Producers have been buying back gold they had previously sold. Hedge funds have jumped in, too. Outstanding positions on Comex, the American exchange that accounts for most of the derivatives trading in gold, are four times last year's level: more than a year's supply seems to be in the hands of speculators.

Reuters

Glittering

The interest of big long-term investors, in contrast, seems to have been falling. For historical reasons, the biggest by far are central banks, who still hold 30,000 tonnes of gold in their reserves and want to be rid of some of it: they have a lot and it pays no interest. Among others, the Bank of England sold some of its gold in cack-handed auctions a few years ago. But so much did the threat of central-bank selling weigh on the gold price that 15 European central banks organised a “selling agreement” (more properly, cartel) to limit sales until next September.

But central banks have long been adept at buying their gold high and selling it low. Some think the rise in the gold price reflects growing concern about the worth of central bankers' promises, not least those of America's Federal Reserve. Really? The recent rise in gold is unusual because inflation, which eats away the value of paper promises, has been quiescent: the biggest fear lately has been deflation.

Only for now, perhaps. Among other things, gold bulls reckon that the excesses of recent years, in

particular the huge debts run up by America, are unsustainable. Getting rid of that debt might mean default or, more likely, the same thing by another name: inflation. At the margin, this is worrying investors and even central banks, especially the Asian ones that now hold $1.3 trillion-worth of US treasury bonds.

They could buy other currencies; but Japan's government is more indebted than America's and governments in the euro area seem content to break their promises to each other not to become too indebted. As durable stores of value, in other words, the yen and euro look less than secure.

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A currency-market scandal

Yet another crooked market

Nov 20th 2003 | NEW YORK
From The Economist print edition

Scams in foreign-exchange trading

ARE there no honest financial markets left in the United States? As the country's mutual-fund scandal rumbled on (see article), an 18-month investigation by federal prosecutors in New York culminated on November 18th with the arrest of 47 participants in the foreign-exchange markets. A number of those arrested worked for such prominent institutions as J.P. Morgan Chase, UBS, Société Générale, AIG and Dresdner Kleinwort Wasserstein. The illegal activity, say prosecutors, has been going on for 20 years.

In most of the recently investigated unsavoury dealings in the financial industry, the public alone has been ripped off. In this case, however, banks are said to have been the victims of elaborate transactions arranged by a group of rogue traders and fly-by-night brokerage firms. Tipped off by an insider, prosecutors created a bogus trading firm to flush out the crimes. The result was a litany of charges covering two different scams.

In one of these, a network of employees at leading financial firms are alleged to have intentionally made money-losing trades and received kickbacks for their services. One of the alleged perpetrators said that to avoid alerting suspicious regulators he had a contact at a Federal Reserve bank who could guide them away from dealing with firms already under investigation. If this is true, it was a huge breach of market security. In the second scam, more than 1,000 retail investors were brought in by pushy telephone salesmen who promised consistent or “risk-free” returns. The customers were provided with false receipts for trades that never took place. Meanwhile, their money was siphoned off to other accounts.

During the investigation by undercover FBI agents, evidence of other crimes emerged. These include money laundering, drugs conspiracies, bankruptcy fraud and plain thuggery: there were threats to put one person “into a wheelchair”.

Tens of millions of dollars are said to have been stolen from small investors. The defrauded financial firms lost an almost trivial sum, $700,000. If this is accurate, the amount of money is the least of their worries. Foreign-exchange trading is largely unregulated because the participants are considered to be sophisticated. If banks were victims, their sophistication does not seem to extend to monitoring their own trading floors.

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About sponsorship

American mutual funds

No end in sight

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From The Economist print edition

The scandal continues

IT GETS uglier by the day. Federal and state regulators are uncovering more and more instances of shady practice in America's mutual-funds scandal. Three top executives—Lawrence Lasser of Putnam Investments, Richard Strong of Strong Financial and Janus Capital's Richard Garland—have resigned. A host of lower-ranking moneymen have been fired. While it is uncovering wrongdoing, American officialdom is divided—acrimoniously—over how to put things right.

The latest revelations continue to centre on the “late trading” and “market timing” that fund managers allowed. On November 14th, for instance, Charles Schwab, a supermarket of mutual funds, said it was looking into late trading in mutual funds it oversees. Late trading is the illegal practice of buying or selling mutual-fund shares at the trading day's price after the market has closed. Market timing is the rapid trading of mutual-fund shares in order to take advantage of the gap between the price of a fund, which is set once a day, and the continuous changes in the value of the underlying portfolio of securities. It is generally legal, although many funds promise not to engage in it.

Other practices are also under scrutiny. On November 17th Morgan Stanley, an investment bank with a mutual-fund arm, agreed to pay $50m to settle civil charges by the Securities and Exchange Commission (SEC) over allegations that the firm paid its brokers more when they sold its own mutual funds. The firm still faces several lawsuits as well as civil charges in Massachusetts.

How much trust has been lost by the funds, which look after $7 trillion of Americans' savings? Assets under management by Putnam, once the fifth-biggest fund, had fallen from $277 billion at the end of October to $256 billion by November 14th. The drain continues: on November 17th CalPERS, America's largest pension fund, sacked Putnam as manager of $1.2 billion of its assets. Strong Financial's funds have lost $226m in the past couple of months. Others have seen pension funds and insurers withdraw tens of millions of dollars.

Although institutional investors have taken revenge on some firms named in the scandal, there has not yet been a general investor revolt against the industry as a whole. According to Lipper, a fund tracker, investors poured $19.5 billion into equity funds in September. An estimated $24.4 billion went in during October.

Meanwhile, lawmakers and regulators are trying to draw up new rules for mutual funds. On November 19th the House of Representatives passed a bill that would make market timing less profitable. The previous day, the Senate Banking Committee discussed reform proposals. The SEC's chairman, William Donaldson, told the committee that the SEC, which has been criticised for reacting too slowly to America's financial scandals, would set up an office of risk assessment to improve its performance. The SEC is due to discuss new fund-trading rules on December 3rd.

A spreading scandal

Selected companies

Company	Source of investigation	Charge/ investigation	Result
Alliance Capital	New York state/ SEC	Market timing	2 employees fired; booked $190m charge
Bank of America	New York state/ SEC	Market timing/ late trading	3 employees fired; booked $100m charge
Bank One	New York state	Market timing	2 managers resigned
Bear Stearns	Client lawsuit	Market timing	6 employees fired
Charles Schwab	Internal	Questionable trades	2 employees fired
Citigroup	Internal	Market timing/late trading	5 employees fired
Federated Investors	New York state/SEC	Market timing	Ongoing investigation
Fred Alger & Company	New York state/ SEC	Market timing/ late trading	Vice-chairman convicted of felony and fined $400,000
Janus Capital	New York state/ SEC	Market timing	Janus International CEO and others resigned
Merrill Lynch	Notified by SEC	Market timing	3 employees fired
Morgan Stanley	New York state/ MA/SEC	Directed brokerage	$50m settlement to compensate investors
Pilgrim, Baxter & Associates	Internal	Market timing	2 founders resigned
Prudential Securities	MA/SEC	Market timing	12 employees fired; 7 employees facing charges
Putnam Investments	MA/SEC	Market timing	CEO resigned; undisclosed SEC settlement
Strong Capital Management	New York state	Market timing	Chairman of mutual-funds unit resigned (remains chairman of group)

Sources: Morningstar; Reuters; SEC; state prosecutors; TheStreet.com; *Wall Street Journal*; *Washington Post* MA=Massachusetts

Paul Sarbanes, a Democratic senator, told Mr Donaldson off for a “counterproductive” public feud with Eliot Spitzer, attorney-general of New York state, the financial industry's keenest prosecutor. Mr Spitzer had criticised a settlement between the SEC and Putnam Investments and had vowed to continue his own investigation of the firm. He was also scathing about the SEC's failure to look into mutual-fund fees. Mr Donaldson replied that the SEC welcomed co-operation from state regulators, but also said it was “frustrating to work with someone in partnership and read the next day in the newspaper that they are attacking your agency.” In other circumstances, divisions among regulators might be good news for a beleaguered industry. Don't bet on it.

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German finance

Pass the parcel

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Speculation revisits Commerzbank and its maverick shareholder

LAST week Commerzbank, Germany's fourth-biggest bank and a perennial target of takeover rumours, announced a €2.3 billion ($2.7 billion) write-off intended to make it more alluring as both investment and merger partner. The favourite (for now) is HVB Group, the country's ailing number-two bank. Commerzbank's share price rose. This week the price rose further still on rumours that WCM, a corporate raider with a stake of just under 5%, is talking to a potential buyer.

That triggered memories of three years ago, when WCM and fellow speculators claimed control of 17% of Commerzbank shares and said they were looking for a strategic investor. They never found one, and the share price dived, leaving them with nasty paper losses.

Commerzbank shares now fetch €15 or so, three times what they did at their nadir. WCM appears more troubled, which explains why it looks like a seller. Its own share price, €10 three years ago, is now a mere €1.30. It has a colourful past, long predating its investment in Commerzbank. Its biggest shareholder, with 45%, is the family of Klaus Ehlerding: as Mr Ehlerding's investment vehicle, WCM has specialised in property—it owns 53,000 dwellings in Germany—and in buying and selling stakes of other listed German companies. Besides its stake in Commerzbank, its best-known raid was a takeover of Klöckner-Werke, a maker of juice processors among other things, in 2000.

Lately WCM has been trying to renegotiate some irksome debt repayments. Technically, this does not involve its own debt but €600m owed by Sirius, an investment vehicle that it owns jointly with a Dutch company, Rebon, and six other investors. Because Rebon, WCM and the other owners cannot agree on a repayment schedule, Sirius's creditor banks have threatened to auction the loan collateral at the end of the year. This consists of shares in Sirius's greatest asset, a quoted property company called IVG.

WCM is relaxed about this, says Mr Flach. Yet the group has debt of €2.45 billion, besides what Sirius owes. The property market is flagging. Over the past three years the stockmarket has not always been kind to WCM. Its assets, and the shares it has pledged to finance them, are vulnerable. Most of the Ehlerdings' stake has been pledged to banks as collateral. This week, Goldman Sachs bought debt owed by WCM, Sirius and Mr and Mrs Ehlerding to Baden-Württembergische Bank. Market sources say the prize was not the loans so much as the shares pledged as collateral.

Is WCM likely to be dismantled? Not if you believe Mr Flach. The company's property debts are manageable, he says, and there is no pressure to sell the Commerzbank stake: “We're not just going to dump it on the market.” No wonder: it is one asset whose value has been rising.

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The Strait of Messina bridge

A bridge too far

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From The Economist print edition

The questionable economics of a grand Italian construction project

CLASSICAL mythology had it that monsters named Scylla and Charybdis lay in wait either side of the narrow stretch of water now known as the Strait of Messina. Soon, if Italian planners have their way, a modern monster will rise above the waves: a bridge linking Sicily to Calabria, the toe of mainland Italy's boot. With a span of 3.3km (2.1 miles), it will be by far the world's longest suspension bridge. Its supporting towers will be 383m high and the bridge will have to be more than 60m wide to be stable. The cost of building it is also gargantuan: €4.8 billion ($5.7 billion). The government expects work to begin in spring 2005.

Such an enormous bridge will need solid physical foundations: an earthquake razed Messina in 1908 and fears of seismic catastrophe persist. And its economic underpinnings? According to Marco Ponti, an appropriately named professor of transport economics at Milan's Polytechnic university, these are decidedly shaky.

Mr Ponti thinks that the cost of the bridge has been underestimated: international experience points to average overruns of around 30% on such schemes, which tend to be driven by politics not economic logic. Even by these standards, most schemes are sounder than the Strait of Messina bridge. The bridge between southern Sweden and Denmark at least creates an extra link from a biggish economy to the main body of Europe. “Sicily is at the end of the line and its economy is small,” Mr Ponti notes. Even in 50 years' time, he thinks, there will not be enough traffic to make the bridge pay.

Long-distance passengers to and from Sicily travel by air and will doubtless keep doing so. For other traffic—goods and short-haul passengers—ferries will continue to provide stiff competition. Every day ferries carry about 5,000 road vehicles each way across the two-mile strait between Messina in Sicily and Villa San Giovanni on the mainland. Those operated by the Italian state railways carry trains as well. Vincenzo Franza, managing director of Caronte & Tourist, a Messina company which takes 80% of the vehicle traffic, says that his firm's revenues from this are about €60m a year, out of a total market he estimates at €140m.

The firm will lose traffic when the bridge is built, says Mr Franza, but its 500 employees are unlikely to lose their jobs. Trains will use the bridge; but he thinks that the ferries will keep a large slice of the car and lorry traffic, partly because local traffic will not make the long journey out of Messina to the bridge and partly because Caronte & Tourist could cut fares and still make a profit. In any case, the ferry will have to stay because strong winds are expected to cause the bridge's closure on at least 15 days a year.

Ferries between Messina and Villa San Giovanni will be only part of the competition. About 60% of goods leaving Sicily head for destinations north of Naples, 500km by road from Villa San Giovanni. Ferry services from Palermo to points north already flourish. Two years ago, Caronte & Tourist began fast services from Messina to Salerno, just south of Naples. In September it launched services from Catania to Leghorn, well north of Rome. These ferries are popular with hauliers who face tighter controls on both lorry speeds and drivers' hours.

Some supporters claim that the bridge will accelerate the development of the backward economies of Calabria and Sicily. Critics counter that the bridge will be of little use unless road and rail infrastructure on both sides of the water are improved; but, despite the billions being poured into the bridge, there is

no public money for that. The private sector, presumably knowing a dud when it sees one, will not put up money for the bridge. In all, estimates Mr Ponti's team, the project will cost the public purse €1.4 billion over the next 30 years. A price worth paying to link Sicily to the mainland? Italy's governing coalition, which won all 61 of the island's first-past-the-post seats in the 2001 election, certainly thinks so.

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About sponsorship

Economics focus

In the long run we are all broke

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How to stop governments going bust

INVESTORS have good reason to worry about states defaulting on their loans: Argentina and Russia provide chastening recent reminders. But both were dysfunctional economies with troubled political pasts. Surely, there is no need to worry about the indebtedness of the governments of stable, advanced countries?

Maybe not, but take a look all the same at the table below. Most countries' explicit net debt—issued as bonds and traded every day in financial markets—is at manageable levels, relative to GDP. However, embodied in current tax and expenditure policies are a lot of obligations for which governments have not yet had to make explicit provision. This implicit liability arises mainly from future increases in spending on pensions and health care. Include it, and total debt vaults to levels last seen (for explicit debt) in wartime. Governments often fall into bad habits when their debts are so high, usually by resorting to the printing press and using inflation to cut the real value of their liabilities.

Credit-rating agencies are alerting their clients to the danger. Standard & Poor's gave warning last year that many European governments will be relegated to the second division of borrowers if they do not tackle spending commitments that are set to soar as populations age. So far, however, investors do not appear to be charging higher risk premiums on explicit debt—the sanction that would most concentrate the minds of finance ministers.

Yet the long-term budgetary risks are real and looming ever closer, says Peter Heller, deputy director of fiscal affairs at the International Monetary Fund, in a thought-provoking new book*. These risks arise not only from the effects of an ageing population on pension and health-care bills, but also potentially from medical technology, global warming, security and globalisation. Irrespective of ageing, advances in medical technology are likely to push up public spending on health care: the more medical science and public health services can provide, the more people will want. Climate change may increase the incidence of floods, storms and droughts—“extreme weather events”—after which governments often step in as insurers of last resort. Some governments are already under pressure to spend more on defence: the “peace dividend” made possible by the end of the cold war is exhausted. And globalisation may limit governments' ability to exploit their national tax bases as both capital and labour become increasingly footloose.

There may be some pleasant surprises to set against this catalogue of doom. Rising productivity ought to mean that future generations are richer and will be able to afford bigger tax bills, especially if the world economy enjoys the sort of productivity growth that America has experienced in recent years. Europeans could start to have more children, who would prop up their onerous pay-as-you-go pension systems.

Mr Heller accepts that there are huge uncertainties; after all, fiscal forecasts a year ahead, let alone a decade or more, are often wildly wrong. But he thinks that the balance of risks lies on the downside. Worse, risks may hit the public finances at the same time; for example, governments in Europe could find their outlays ballooning from weather-related damage as well as population ageing. As for appealing to the generosity of future richer generations, he is properly dubious about governments' ability to squeeze more tax out of their citizens. Higher tax rates might merely mean a bigger shadow economy, or an abandonment of over-taxed work in favour of untaxed leisure.

Plan, plan and plan again

So what is to be done? First, governments must look much farther ahead than they do now. An increasing number of western countries are planning their public finances on a basis of three to five years, but this is nowhere near enough, argues Mr Heller. They need to incorporate a long-range perspective (of at least 25 years and preferably more) into their budgets. Second, these projections should be vetted by independent agencies such as America's Congressional Budget Office, because of governments' tendency to see the silver lining and not the cloud.

Such long-range forecasts would alert both politicians and the general public to the need for pre-emptive action to avoid a future fiscal crunch. One way forward would then be to run budget surpluses over the next few years in order to create borrowing room in the more distant future. But Mr Heller cautions against pinning too much hope on this approach. It has been tried before. In the late 1990s, America's Social Security surpluses were supposedly in a “lockbox”—which was prised open the moment the rest of the federal budget swung into deficit. Similarly, Norway's supposedly separate rainy-day fund, financed from oil and gas revenues, was raided in 2001 to meet immediate budgetary pressures.

If governments are to avoid going bust, politicians will have to grasp the nettle. They must cut back on the over-generous promises they have made to their citizens, above all in pensions and health care. And they must do so sooner rather than later. Delay means that future generations of pensioners will find themselves short-changed through an abrupt cut in benefits. Given due warning, they could take steps to protect their incomes in retirement.

Politically, this is not much easier than promising to lock away surpluses. Even so, recent pension reforms by European governments are a small step in the right direction. But how much better it would be if governments published comprehensive long-range fiscal projections, scrutinised by independent bodies and open to public debate. Unless governments are forced to be honest about their predicament, it will be hard to stop them going bust.

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* “Who Will Pay? Coping with Aging Societies, Climate Change, and Other Long-Term Fiscal Challenges”: www.imf.org/external/pubs/nft/2003/wwp/index.htm

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About sponsorship

Immunology

A poxy story

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For several hundred years, a type of pox virus known as vaccinia has been saving lives. Today it is still proving useful to medicine

IN THE first “Matrix” film, the character Morpheus comments on how strange it is to be enslaved by machines when for so long humans have prospered by using them. Fate, says Morpheus, is not without a sense of irony. Medical science is striving to achieve a similarly ironic twist of fate, so that humanity can benefit from the organisms that once enslaved them.

A few hundred years ago, smallpox killed as many people as cancer or heart disease do today. It was finally wiped out by an immunisation programme using a close but less virulent relative of smallpox, called vaccinia.

Although many fear a return of smallpox, perhaps through some form of bioterrorism, a paper in the November 15th issue of the *Journal of Immunology* suggests that the remarkable vaccinia provokes an immune memory that is retained for at least 50 years. Those vaccinated prior to the end of the smallpox vaccination programme in the early 1970s may have some protection to this day.

With the eradication of smallpox, the routine use of vaccinia has ceased. Nevertheless, vaccinia has been, and will continue to be, a very useful virus indeed.

Some researchers have turned to it as a potential means of delivery for immunisation against other viruses. On November 12th vaccinia was put to work in South Africa and Switzerland in trials of an AIDS vaccine by the International AIDS Vaccine Initiative, a New York-based charity.

The vaccine uses a genetically modified form of vaccinia, known as vaccinia Ankara, which carries a copy of a small section of genetic material from HIV. The vaccine is being tested in five countries. It will be at least five years before it is known whether the trial has been successful and whether vaccinia is going to make a comeback as a life-saving vaccine.

Horse sense

When Edward Jenner performed the first-ever immunisation in 1796, he thought he was using cowpox from a milkmaid's viral sores. In fact, what Jenner used was not cowpox but vaccinia, a close viral relation. In the healthy, a vaccinia infection is largely harmless and merely confers immunity to smallpox. Jenner infected his gardener's son with the virus, and it proved to be an effective immunisation. The practice was then enthusiastically taken up around the world and the word “vaccination” was derived from the Latin word for “cow”.

Vaccinia's origins, however, remain something of a mystery. Some think it may have mutated from cowpox. Others suggest it came from the smallpox virus, variola. Geoffrey Smith of Imperial College London, suggests it may even have come from horses, since milkmaids were also likely to come into contact with those animals. In which case, he says, tongue in cheek, the term used today should be not vaccination, but “equination”.

All of the pox viruses, including vaccinia, are unusually large and complex. Vaccinia has more than 200 genes compared with HIV's nine. It is still not clear precisely what all these extra genes do. But it seems likely that some, at least, produce proteins that are involved in suppressing the host's immune system. If researchers can discover why vaccinia, and other pox viruses, are so good at evading the efforts of immune cells, they will make a significant advance in understanding the way the human immune system works. Scientists believe that pox viruses have many useful immune evasion strategies just waiting to be discovered.

Andrew Bowie, a researcher at Trinity College, Dublin, is interested in a group of receptors on macrophages and dendritic cells—the body's sentinel cells. Such cells form the front line of defence against invaders. (This innate immunity is an inborn defence mechanism found in all animals.) On the surface of these cells are proteins called toll-like receptors (TLRs) that recognise essential parts of invading pathogens, probably by sticking to them. It is the TLRs that activate the innate immune system. Crucially, vaccinia has ways of stopping this: by producing proteins that interfere with this activation system.

Dr Bowie explains that turning on the immune system is rather like putting a key in a lock and opening it. Vaccinia proteins represent dummy keys that block the lock mechanism and prevent the body's immune system from knocking out the virus.

These studies can also reveal molecules and interactions that are crucial for the functioning of the immune system, says Liang Tong, of Columbia University, New York. These can be used as targets for therapeutic intervention in the treatment of various human immune diseases.

Meanwhile, a paper published in the November 17th issue of the *Proceedings of the National Academy of Sciences* shows that even the nasty smallpox virus may also be useful. Some 10% of Europeans have a mutant gene, CCR5, that protects them against HIV infection.

Prevailing theory suggests that this mutation was perpetuated by the selective pressure of another disease, the bubonic plague. Alison Galvani and Montgomery Slatkin at the University of California, Berkeley, argue that smallpox can better explain the existence of this mutant variety of gene. Smallpox was more likely to kill children before they reached reproductive age, thus creating a stronger selective pressure. It has also been around a lot longer than the plague.

In addition, the scientists suggest that, since smallpox is also a virus, like HIV, it is easier to imagine a common biological mechanism by which the CCR5 mutation prevents infection. The mechanism, whatever it is, is likely to be fertile ground for future study. An historical agent of death is already saving the lives of a few today. Maybe one day it will also be the saviour of many.

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Racial prejudice

Thinking about it

Nov 20th 2003
From The Economist print edition

Covering up prejudice is tiring

REX

No prejudice here

OF COURSE, it is good to be polite. And, as a result, in most places these days it is impossible to know what someone is actually thinking when he meets or works with someone of another race. Politeness makes it unacceptable to express prejudice, even if those attitudes are actually there. How hard do people work to overcome a prejudice that they feel but are not allowed to express? That is the question Jennifer Richeson, of Dartmouth College in New Hampshire, attempts to answer in this month's *Nature Neuroscience*.

In a study carried out earlier this year, she and her colleagues found that racially biased people take longer to perform tasks that require a conscious effort to control their racial responses and actions. This effort is known as cognitive control. The researchers suspected, as a result of this earlier study, that there was a physical mechanism, which they dubbed resource depletion, underlying this lag in performance. In their latest paper, they think they have proved this theory.

The idea behind the theory of resource depletion is that the effort expended on suppressing prejudice depletes the ability to use cognitive control in subsequent tasks. The researchers recruited 30 white students as volunteers, and attempted to identify their racial attitudes using the Implicit Association Test (IAT). During an IAT, volunteers match positive and negative words such as “health”, “beauty”, and “ugly”, with names traditionally associated, at least in the United States, with black (such as Latisha and Tyrone) or white (Nancy and Greg) Americans. The IAT measures response times to these uncomfortable questions, and assigns higher levels of racial bias to white participants who are slower and less accurate in matching black names to positive attributes, and vice versa. The results of the IAT were used as a baseline from which to assess each volunteer's underlying prejudice.

Two weeks later, the same participants were recruited for a seemingly unrelated experiment, and were shown photographs of black and white faces while undergoing a brain scan. The scans revealed what Dr Richeson's team had suspected. Areas of the brain associated with cognitive control flared into activity proportionate to each volunteer's level of racial bias as measured by the IAT.

Before that, but after the IAT, Dr Richeson got a black experimenter to ask the volunteers about their college fraternity systems (in which students band together into formalised and often socially exclusive groups) and also about racial profiling (the idea that since some security threats originate in particular parts of the world, people who have family connections there, or even look as though they might, should be picked out first for investigation). These are both areas that would force a biased person to exercise cognitive control, in order to give a socially acceptable reply. That done, the participants carried out a Stroop colour-naming task, an undertaking that is known to require a high level of cognitive control.

In a Stroop test, participants must identify the ink colour in which words such as “red” or “blue” are printed. Subjects have to think harder to identify the colour red, for example, if it is used as the typeface for the printed word “yellow”. As predicted, the volunteers who had scored higher levels of racial bias in the IAT test took longer to complete the Stroop test than their peers. That provided the evidence of previous resource depletion.

The bottom line, it seems, is that it is tiring to suppress racial prejudice. Furthermore, this has impact on a person's subsequent attention and performance. It is rather similar to the depletion of a muscle after intensive exercise.

What this experiment does not answer, of course, is whether the prejudiced participants were striving to overcome their prejudices, or merely to cover them up. Dr Richeson remarks of her results that, “there's a subtle, but powerful, difference between trying not to do the wrong thing, and building positive habits through friendships and cultural exchange, so that doing the right thing becomes our automatic response.”

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Planet hunting

Baby boom

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Astronomers can find baby planets

THERE is something remarkable about watching a baby being born. The emotional effect is perhaps diminished by a distance of 330 light-years (3m billion kilometres), which is the distance to the star HD 100546. But it is around this star that a team from the University of Arizona's Steward Observatory has just taken a snapshot of a baby planet.

Writing in *Astrophysical Journal Letters*, on November 11th, Philip Hinz and his colleagues report their observation, among the first ever, of a planet in the process of formation. The “protoplanet” is a healthy weight—similar to that of Jupiter, the largest planet in the solar system. The child, as yet unnamed, is already showing signs of detachment from its parent. Dr Hinz estimates that it is orbiting at a distance about twice that of Jupiter's from the Sun.

A decade ago, the possibility that planets might orbit stars other than the Sun was only a theory. But since the first extrasolar planet around a Sun-like star was found in 1995, a new era of astronomy has begun. As of November 14th this year, 119 planets had been discovered and catalogued.

Most of these discoveries have relied on detecting the indirect effects that a planet has on its parent star. A planet, if it is large enough, will cause its star to wobble because of gravity. This wobbling is easy for astronomers to observe but is not as helpful in detecting a nascent planet. This is because the star is surrounded by a cloud of dust—from which planets form—that masks the gravitational effects of the protoplanets. So Dr Hinz and his team turned to a technique called “nulling interferometry” that they have been developing in order to look more closely at stellar systems.

Because light can be thought of as a wave, adding two light signals together causes them to cancel each other out, if the peaks of the first signal coincide with the troughs in the second. Noise-cancelling headphones work in rather the same way although with sound waves. With a nulling interferometer, the light from the stellar system is split into two parts. Because the light from the region of space around the star is not precisely aligned with the star's light itself, only the star's light is eliminated when the two halves are then reunited.

Even using the interferometer, though, Dr Hinz and his colleagues see not the planet itself but a gap in the disc of dust that surrounds the star. According to computer simulations, the only sensible explanation for this gap is a planet, too small to see, that is drawing dust towards itself by gravitational attraction. By finding similar protoplanets, astronomers can get a glimpse of the process that drives the formation of planets.

The star giving birth to this planet is also young. An astronomer, presumably with a sense of humour, named this type of object a PMS (pre-main sequence) star. HD 100546 has not yet started “burning” hydrogen. This is the process that main-sequence stars, such as the Sun, use to stay alight. Instead, HD 100546 is producing energy by fusing deuterium atoms—a heavier form of hydrogen.

Although nulling interferometry is a difficult technique to get right, it is such a promising approach that several other teams are planning to build more such devices. This could lead to a boom in the discovery of young planets.

The news, though, is not so good in terms of finding planets that are more like Earth and not the size of Jupiter (a type of planet that is unlikely to sustain life). On November 6th, lack of money forced the European Space Agency to cancel plans for a mission known as Eddington. This would have monitored the brightness of thousands of stars and might have identified hundreds of Earth-sized planets.

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Ornithology

Sleeping with the finches

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Some birds appear to have similar patterns of sleep to mammals

FOR a century or more, the attributes that were once thought to distinguish us from the rest of the animal kingdom have, one by one, cropped up elsewhere. Orangutans spell, crows wield tools, parrots count and dolphins and chimpanzees show cunning if not outright deceit.

In a similar vein, it was thought that mammals were distinct from all other creatures because they have that most evolutionarily advanced part of the brain, the neocortex. As a result, it was believed, only mammals could experience a distinctive mosaic of rapid eye movement (REM) and non-REM when sleeping. Scientists usually divide sleep into three patterns: REM is the period when the eyes are closed and rapidly moving, and the brain emits electrical signals of high frequency and low amplitude or power. Slow-wave sleep is high amplitude and low frequency. An intermediate stage represents a transition between the two.

However, new findings presented at the annual meeting of the Society for Neuroscience in New Orleans, between November 8th and 12th, suggest that some birds may have these sleep patterns too. Philip Low, a graduate student at the Salk Institute for Biological Studies in California, and colleagues at the University of Chicago have found that a songbird experiences REM sleep, slow-wave sleep and an intermediate stage—just as humans do. In addition, during the night there is a distinctly mammalian-like shift in that pattern towards longer and more frequent periods of REM.

Songbirds are among the most advanced of birds and there is no doubt that they lack a neocortex. Yet some scientists argue that there are regions of their brains that make possible some of the same functions as the mammalian neocortex. Mr Low concludes that, whereas a cortex is sufficient for mammalian-like sleep, it is not necessary. When in evolution, he asks, “did a bird decide to sleep like a baby?”

He and his colleagues monitored the electrical activity of the brains of zebra finches while they slept, and their head and eye movements with infra-red cameras. Electrical activity in the bird's brains were divided into the three stages of sleep, and all three were found in sleeping finches. The scientists detected certain “exotic signals” in the intermediate stage that will require further analysis, but strongly resemble activity thought to be a signature of mammalian sleep.

The findings, as yet unpublished, are likely to prove controversial: other groups have failed to detect REM sleep in zebra finches, and no one has ever before reported an intermediate stage of sleep in creatures other than mammals. But they do appear to be supported by other findings coming out of a large study of bird brains being carried out by Andrew Iwaniuk, a psychologist at the University of Alberta in Edmonton, Canada and collaborators at Monash University in Clayton, Australia. They have collected data on the brain sizes and structures of more than 1,400 bird species, including over 150 parrot species, with a view to comparing the evolution of brains, social behaviour and mental capacity in birds and primates.

Their primary interest has been parrots—because of their well-documented mental skills. So far they have found similarities between parrots and primates in the ratio of the size of different areas of their brains to their body mass. The similarities are most striking in areas associated with tackling complex mental tasks. Some parrots even have larger brains than primates of a similar body mass—a surprise since parrots fly and that constrains the weight they can carry.

Another interesting finding, says Dr Iwaniuk, is that some songbirds are level-pegging with parrots in terms of relative brain and forebrain size. Based on these and Mr Low's findings, he predicts two things: first, that past studies of bird sleep have been oversimplified and many other birds besides finches will

turn out to have REM and non-REM sleep; second, that the impressive cognitive abilities of parrots may not be unique among birds.

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About sponsorship

Board games

Thrills and skills

Nov 20th 2003
From The Economist print edition

Monopoly and other games that conquered the world

IT IS a fair bet that many readers of this newspaper gained their first understanding of capitalism from playing Monopoly. A number will have also started thinking about the elements of geopolitics over the board of Risk; a murder-mystery game, Clue, teaches deduction; Careers (now renamed the Game of Life), teaches important truths about priorities and rewards. Just how the inventive George Parker and his brothers developed these marvels is the subject of Philip Orbanes's new book.

The Game Makers: The Story of Parker Brothers, from Tiddledy Winks to Trivial Pursuit
By Philip E. Orbanes

Harvard Business School Press; 272 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

The chance to pit wits and luck against chance, topology and imagination that is now offered by computer games used to be provided by dice, counters and a well-designed board. Parker products were sold as entertainment, but are educative and unforgettable too. The young player of Monopoly learns about asset values, cash flow and returns on investment. The Risk player must grapple with the fickleness of allies. All the games build a good understanding of probability. When you learn that the chance of shaking a double six is just one in 36, whereas a seven is the single most likely outcome, you are well on the way to making numbers your friend and ally for life.

Perhaps deepest of all are the lessons taught by Careers, in which players decide at the start of the game what combination of money, fame and pure happiness they will seek. Different careers bring different dividends and risks. Business is said to bring much money but little happiness. Politics brings fame, but misery; Hollywood may bring the lot, but is the most risky. Make priorities, stick to them, move quickly. Those are not bad rules for modern life. Although the categories are crude, and the details may seem off-puttingly quaint (boss's wife likes you, get a pay rise), the game teaches something about the utilitarian calculus at an age when philosophy and economics rarely feature on the timetable: different kinds of good fortune are not easily interchangeable. Happiness, when bought with money, often comes at a high price.

Parker Brothers' games also reflect the American world view of the 20th century. Life is a ruthless struggle in which there are many losers, but it takes place within a framework of unbendable and fair-

minded rules. And when the game is over, you can just start over again, hoping to do better next time. Young children are often too nice to understand this, and, when playing Monopoly, will tax adults' patience by refusing to bankrupt other players, or by suggesting a cash injection all round from the central bank.

The Parkers' own story began in 1883, as America was just beginning to develop a middle class with time for leisure pursuits. At 16, George Parker invented a game to amuse his brothers on a wet afternoon. Banking, as it was called, unveiled his talent for game design. His brothers urged him to have some copies printed; all but two were sold, at a profit of $100. He set up a company. As it grew, he set his own 12 rules for success in business. They could come straight from a modern business book: know your goal, find winning moves, play by the rules, choose moves with the greatest potential, and so on.

The poverty-struck years of the Great Depression proved just the right time to launch the company's most successful game: one based on making lots of money. Monopoly was not invented by George Parker. When he played a trial version submitted by the inventor, Charles Darrow, he thought it was too complicated, too technical and it took too long to play. A rejection letter that was sent early in 1934 cited “52 fundamental errors”. A few months later, Parker had eaten his words. He bought the game from Darrow, and rewrote the rules in his trademark crystalline English. Within two years 2m sets of Monopoly had been sold. Parker, characteristically, publicly displayed his scornful letter to Darrow as a lesson in humility.

As with many family companies, the early genius eventually evaporated. The company still launched successful games, including Clue (or Cluedo, as it is called in Britain) in 1947, Careers in 1956 and the blockbuster Risk in 1959. But America's post-war boom disguised grave weaknesses in the company's management. This book, written by a company insider and games expert, is a slender, affectionate retrospective look at the firm's glory years, combined with a mournful account of its decline, including some well-aimed digs at those responsible. After a series of undignified and painful reverses, it is now a mere brand belonging to another games giant, Hasbro.

George Parker, always on the lookout for “pep”—his word for the new products with buzz—might be less sentimental. In his day, he ruthlessly ditched under-performing parts of his empire. Were Parker in charge today, his company would probably have moved firmly and successfully into computer games, which would no doubt be accompanied by instruction manuals of exquisite clarity.

The Game Makers: The Story of Parker Brothers, from Tiddledy Winks to Trivial Pursuit.
By Philip E. Orbanes.
Harvard Business School Press; 272 pages; $29.95

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About sponsorship

Central Asia and the Caucasus

The devil's tears

Nov 20th 2003
From The Economist print edition

ACROSS Central Asia and the Caucasus, people understand why oil is the “devil's tears”. Lutz Kleveman, a journalist who has criss-crossed the region and met numerous oil barons, politicians and warlords, as well as ordinary people, concludes that the great powers are once again playing a cynical “great game”, leaving blood and tears in their tracks. The prize and the players, however, have changed since the 19th century. What is at stake is not India, but access to the region's abundant oil and gas resources—possibly the world's largest untapped reserves of energy. And tsarist Russia and colonial Britain have been replaced by the United States, post-Soviet Russia, China, Iran and Pakistan.

The New Great Game: Blood and Oil in Central Asia
By Lutz Kleveman

Atlantic Monthly Press; 304 pages; $24 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

The United States, eager to satisfy its growing energy hunger and ease its dependence on Middle East oil, has been eyeing the region with growing interest since the collapse of the Soviet Union. Russia is witnessing America's creeping influence with unease and is struggling to maintain the upper hand in its traditional backyard. China has been pulled in by energy prospects as well, but also by its desire to quash support for Uighur separatists in its western province of Xinjiang.

The oil has to be moved from its source to its market, a problem of pipeline politics that has yet to be solved and which affects not only producing countries, but also their neighbours. The Americans are pushing for a westward route from Azerbaijan via Georgia and Turkey, bypassing Russia; Moscow wants to keep control over pipelines delivering Caucasian oil; China has been negotiating an eastward route with Kazakhstan; Iran, whose oil is in the south of the country but whose energy needs are in the north, is dreaming of oil swaps with Central Asian countries, a nightmare for any American administration. And Pakistan argues for a pipeline to go, improbably, through Afghanistan.

AFP

The world's new petrol pump

Mr Kleveman links the instability of the region to oil greed. Russia, he says, has been fuelling ethnic conflicts in the newly independent countries of the Caucasus to keep them on a tight leash and undermine American plans. The United States, he says, has been using the war against terrorism as an excuse to establish a military presence in Central Asia. Everyone has been meddling in Afghanistan.

But the newly independent republics also know how to play the game. “We need the big oil pipeline so that we will continue to have the United States on our side against Russia,” explains a Georgian diplomat. “You see, Georgia has got nothing else to offer to the world. We have to sell our geographical position.” But many people he spoke to also criticise the United States, which is seen as a democratic country that now supports Central Asia's despots in the name of oil.

Mr Kleveman feeds his argument with enlightening historical background and colourful anecdotes from his extensive travels and interviews. But by looking at the region exclusively through the oil lens, he reduces foreign policy to simplistic energy imperialism, concluding with exaggerated visions of endless energy wars, floods of refugees, oil price shocks and ever-growing foreign military commitments.

The New Great Game: Blood and Oil in Central Asia.

By Lutz Kleveman.
Atlantic Monthly Press; 304 pages; $24 and £16.99

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Vietnam revisited

Wounded lions

Nov 20th 2003
From The Economist print edition

JUST when it seemed that Vietnam had faded from the American consciousness, David Maraniss, associate editor of the *Washington Post*, has written a masterful work that brings the conflict back with a rush of *cinéma vérité* emotion and tension. Rather than an overarching history, or settling on a particular battle, he has woven together the actions of the major players—the American and North Vietnamese military and the American protesters back home—as they unfolded over a few days at the end of October 1967.

They Marched into Sunlight: War and Peace, Vietnam and America, October 1967
By David Maraniss

Simon & Schuster; 592 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

The centrepiece of the book is the disastrous battle fought by the Black Lion battalion, a debacle that lasted little more than four hours. The reason for the operation was never clear beyond the need to provide America's top brass with a successful search and destroy mission. As the American soldiers moved into the jungle on the morning of the battle, most of the platoons were below strength because many of the men had been on patrol the night before and needed to rest awhile before starting out once more.

The depleted American forces walked straight into an ambush set by Vo Minh Triet, a North Vietnamese commander. From treetops and ground cover on three sides, sniper fire rained down on the Americans. Artillery support was poor, and a pause in mortar fire ordered by American commanders in helicopters overhead allowed the Viet Cong to regroup for a final overwhelming attack. Sixty-one American soldiers died in the jungle and almost as many were injured. “It's a massacre out there, sir,” a survivor told a superior. “No one won that day,” Mr Vo told Mr Maraniss 35 years later, when they visited the battlefield together.

The reader is familiar with many of the soldiers before they slog into the jungle. Mr Maraniss describes their journey to Vietnam. So their fear among the noise and confusion becomes all the more poignant. The Black Lion commander, Lieutenant-Colonel Terry Allen, the son of a second-world-war general, is described as a man who revered his father but could not meet his standards. He died in the battle.

Mr Maraniss comes from Madison, Wisconsin, so his account of student protests against the Dow Chemical Company on the campus of the University of Wisconsin carries the authenticity of hometown knowledge. He also understands Washington, and he argues that it was at this moment that President Lyndon Johnson first contemplated not running again.

The book's title comes from a poem about American infantry men in Vietnam, but Mr Maraniss shows how virtually everyone caught up in the war seemed to be walking into ambushes in that bright autumn of 1967. The author won a Pulitzer prize for his biography of Vince Lombardi, a football coach, and he is recognised as one of the first to examine the psychology of Bill Clinton in his biography of the former president. This time, he has a far broader canvas. Over the years, Vietnam has produced several classics, all of them different: “Dispatches”, by Michael Herr and “A Bright Shining Lie”, by Neil Sheehan. Here is another.

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By David Maraniss.
Simon & Schuster; 592 pages; $29.95

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Literary biography

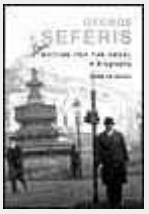
A poet's lost world

Nov 20th 2003
From The Economist print edition

MUCH of the history of Greece in the 20th century is one of trauma—the country of light has known great darkness. As a Nobel prize-winning poet and a diplomat, George Seferis (1900-71) was “the servant of two masters”, but in both roles he strove to affirm the dignity and humanity of his people. Yet at each stage of their often bitter destiny—in defeat, dictatorship, occupation and the agony of civil war—he experienced the woundedness of being a Greek.

As a diplomat he often played a central role in political events. In the Greek government in exile during the second world war, as private secretary to Archbishop Damaskinos, the post-war regent of Greece, and particularly as ambassador in London during the negotiations for Cypriot independence, Seferis repeatedly and with helpless foresight perceived the scales of history as coming down on the side of injustice.

George Seferis—Waiting for the Angel: A Biography
By Roderick Beaton



Yale University Press; 528 pages; $40

Buy it at
Amazon.com
Amazon.co.uk

For all his identification with his people, Seferis the poet was at heart an exile. The world of his childhood in Smyrna was extinguished in Greece's catastrophic defeat by Turkey in 1922. There could be no return. He made a conscious commitment to the young Greek state, and a deeper dedication to its language, yet he was never to lose the sense of being uprooted. When, in 1950, he did eventually revisit the places of his childhood, he described his emotions as “a descent into Hades”. “I don't feel hatred,” he wrote in his diary, “what I feel most strongly inside is the opposite of hatred; an attempt to accommodate in my mind the mechanism of catastrophe.”

Seferis wrote as the conscience of a people struggling to reorient themselves in a world of unclear definition, the singular pronoun of his early poems yielding to a collective “we”. Yet he is a difficult poet. Although revered and even loved in his native land, not least for his prophetic declaration of opposition to the crude dictatorship of the colonels that darkened his final days, his work resists easy comprehension. Often his poetry suggests a voyage through clouded seas, with fragmentary glimpses emerging through the gloom. Certain themes recur, many specifically Greek: the sea, the weight of the past, the treacherousness of history, the uncertainty of man's destination, the mingling of darkness and light, all contemplated in waves of imagery whose significance can be obscure. Yet Seferis is a great and principled poet, and he speaks not only for Greece, but at some level for all who partake of the same displacement.

Roderick Beaton's biography of Seferis is the first in any language; even in Greek there are only two full-length studies of his work. The author achieves a remarkable synthesis. He has an impressive command of his material, and engages the reader's interest in very different themes. The description of Ottoman Smyrna, with which the book opens, is a potent evocation of a lost world.

His summaries of the political and ideological developments in 20th-century Greece are models of concision, illuminating even to those who know the facts. Yet at heart this book is the portrait of a man, and throughout the reader is conscious of the sensitivity and restraint with which Mr Beaton treats his subject. Even when he addresses family troubles or the personal relationships that inform the poet's early work, he maintains his respect for a deeply private person. Like Seferis, he is aware that a mystery is not better revealed under a fierce light.

George Seferis—Waiting for the Angel: A Biography.
By Roderick Beaton.
Yale University Press; 528 pages; $40

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Living off the cruel sea

The fishermen's tale

Nov 20th 2003
From The Economist print edition

GOING to sea in a violent storm in January would not appeal to many people, but Redmond O'Hanlon could not wait to set sail. The result is his boisterous new book, “Trawler”, the story of the crew of a Scottish deep-water fishing boat and their bid to wrest a living from the dark waters of the North Atlantic.

The exploits take place on the rusty *Norlantean*, which has been converted for deep-sea fishing by its skipper, 30-year-old Jason Schofield. As a result he has a £2m ($3m) overdraft and must bring in around £50,000 every ten days to pay it off. Which is why his vessel is punching into the rowdy swell of a strong north-westerly when most other boats are tucked up in harbour. Mr Schofield and his crew, a hard-muscled bunch of Scots and Orcadians in knitted hats and greasy oilskins, are joined on board by Luke Bullough—a marine biologist who studies the fishy oddities that come up with each trawl: polar sculpin that live up to 3km (about two miles) down; lumpsuckers; garfish; a sea-bat, and the gruesome hagfish that produces gallons of deadly mucus when it encounters a predator.

Trawler: A Journey Through the North Atlantic
By Redmond O'Hanlon

Hamish Hamilton; 339 pages; £20

Buy it at
Amazon.co.uk

Mr O'Hanlon, who has taken us to Borneo, Amazonia and Congo in his previous madcap books, is a game, if unstable, passenger. As the boat is slammed by searing winds and tumultuous seas, he staggers around, sliding over slippery decks, seasick, bruised, exhausted and wholly in awe of the crew's ability to work on the roiling deck, in the pitching gutting room and the ice-filled hold.

His frenetic writing style—which would be contrived in any other setting—readily conveys the motion of the *Norlantean* as she “rolled and surged and yawed and shook and dervished to starboard”, the sea as a “chaos of whirling streaks of foam”, the boat's gunwhales “digging in to the waves” as “torn-up water” hurtles past.

Much of “Trawler” is written as a stream of dialogue, a great part of that between Mr O'Hanlon and Mr Bullough who, as sleep deprivation takes hold (three hours in 36 is the norm on this trawler), have increasingly frenzied conversations about fish, fatherhood and the arguably chaotic and wasteful British and European Union's fish-quota system. “Trawler” is a poignant tribute to the modest, brave men who endure gruelling conditions to earn a wage from the deep cold sea.

Trawler: A Journey Through the North Atlantic.
Redmond O'Hanlon
Hamish Hamilton; 339 pages; £20

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About sponsorship

German contemporary photography

Formal realism

Nov 20th 2003 | DüSSELDORF
From The Economist print edition

No snapshots, please

The impact of intellectualising

LIKE zealous butterfly collectors, two German photographers, Bernd and Hilla Becher, have devoted much of the past 40 years to photographing and classifying sculptural relics of the industrial age before they vanished from the landscape. From such sows' ears as blast furnaces, cooling towers, pit heads, silos and power stations they created silk purses.

Next week, the latest retrospective of the Bechers' work opens in Düsseldorf. It will show yet again how their cool, technically perfect compositions have been copied by cutting-edge photographers on both sides of the Atlantic. It is this body of work, as much as Mr Becher's famous class at the Kunstakademie in Düsseldorf, that has contributed to the dominating power of German photography in the contemporary art market and museum world.

Until Mr Becher arrived, the Kunstakademie was just an art school that offered a minor option in photography; he made his course the most sought-after in Germany. “I took only students whose work made me think I'd like to have done that,” says 72-year-old Mr Becher, who for 22 years until 1998 presided over his class as if it were a modern medieval guild. The master encouraged his protégés to abandon the spontaneity of Cartier-Bresson-style street snapshots in favour of rigorously thought out, unembellished pictures that were completely free of sentiment or cliché—a style that was rooted in the *Neue Sachlichkeit*, the formal realism that sprang up in the 1920s and was epitomised by the cool classifying quality of August Sander's seried ranks of fellow Germans.

Mr Becher's first generation of pupils stepped into the international limelight only in the early 1990s when new technology enabled them to create flawless, visually stunning large-scale colour photographs at a time when dealers and collectors were looking for something that would have an appeal all of its own in an image-dominated world.

What emerged included the family portraits and sumptuous pictures taken by Thomas Struth in museums and Italian churches; Axel Hütte with his landscapes and architectural images; Candida Höfer, Germany's co-representative at the 2003 Venice Biennale, with her extraordinary depictions of public spaces devoid of a public; and Andreas Gurksy, by far the world's most popular and expensive photographer, whose best-known images can command over $500,000 at auction.

“It's not just what the Bechers gave us, but also what they didn't take away,” claims Thomas Ruff, who stepped into Mr Becher's shoes at the Kunstakademie in 2000 (Jeff Wall, a Canadian photographer, filled

in briefly between the two Germans until one his students threatened to shoot him). To his students, Mr Becher's encouragement had a hands-off quality, but his influence is still visibly there.

Frank Breuer, one of Mr Becher's last pupils, has explored a new corner of the couple's artistic project by photographing warehouses or brilliantly coloured shipping containers stacked like random sculptures against a milky pale sky—the subject of his current show in London. Like the Bechers, Mr Breuer shows a respect for the beauty and strangeness of his subject. A fellow-student, Boris Becker (not the tennis player), takes powerful, precise photographs of landscapes, buildings and street scenes devoid of human presence, while Simone Nieweg, one of a number of Becher students championed by the Goethe-Institut in London, focuses her talents on subdued studies of fields and allotments that punctuate the industrial Ruhr and lower Rhine regions. In sharp contrast, Katharina Mayer is best known for her mysterious portraits of young women, who conceal their identities by turning their faces away from the camera.

Most intriguing perhaps is the work of Jörg Sasse, a Düsseldorf-based Becher student who favours a more lyrical approach with his idealised, computer-manipulated images that explore the space between Becher-style photography and another famous teacher, of painting, from the Kunstakademie, Gerhard Richter. First, Mr Sasse flicks through up to 15,000 slides, either his own or purchased at auctions, in search of what he calls “an immediate visual experience” that will enable him to make one of ten or 12 works a year. The real work begins when he scans the image into his computer, crops it, “corrects” the colour, alters the perspective, removes extraneous details—then gives the image a random four-digit number and the year of completion.

Arguing that it is possible to make powerful images without a literary explanation, Mr Sasse shows an airless scene, eerie in its perfection with a square, white house with a green tile roof separated by a wooden fence from a line of water in which the lower portion of the house is reflected. There is a vast eastern European apartment block obscured by a cloud of dust; and a composition of three male bathers bending over to wash their legs in the shallow waters of a lake.

Among his most interesting works is 8246, 2000—a careful, classically balanced image of a low-lying industrial building set against a blue sky sliced by a tilted Ferris wheel with its spinning fireball of light. While, on the surface, Mr Sasse's work—all painterly and coloured—seems quite removed from that of the Bechers, it shares their Germanic passion for rigour and theconscious intellectualisation of images.

Bernd and Hilla Becher's retrospective is at K20 Kunstsammlung, Düsseldorf, from November 28th to April 12th. Frank Breuer's “Containers” is at the Rocket Gallery, London, until January 31st. Katharina Mayer's work is on show at the Goethe-Institut, London, from November 26th to February 21st.

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About sponsorship

Charles Causley

Nov 20th 2003
From The Economist print edition

Mark Gerson

Charles Causley, a defiantly unmodern poet, died on November 4th, aged 86

THE purest poetry, it can be argued, springs not from urban angst or cloistered academies, nor even from the passionate contemplation of nature. It grows from the soil, and is best expressed in the simple songs of ordinary people. Just as a line of hills, or the edge of a wood, can move an English heart in inexplicable ways, so too can the plain, quiet words of “The Sally Gardens” or “Linden Lea”, even before a Benjamin Britten or a Ralph Vaughan Williams had added woodwinds to them.

Yet for centuries, from the decorous Augustans through the blazing Romantics to the solid Victorians, no one paid much attention to the ballads of England's drinking houses or the rhymes of its playgrounds. The odd little snatches chanted in Shakespeare's plays by Puck or Ariel had a certain haunting power, but no poetic virtue. These were primitive things. Only poor half-mad William Blake, buffeting the wind on Hampstead Heath, gained some sort of audience for “songs” that deliberately confused the worlds of the adult and the child. And only Rudyard Kipling gave soldiers' slangy ballads an honoured place in his work.

Charles Causley not only embraced this sort of poetry, but became its best modern practitioner. He called his poems ballads, carols, serenades, rondels and nursery rhymes, and wrote them as if they should be danced to. He delighted too, like Blake, in making poems that could be read by children and adults alike. He did not believe in the distinction, and in his work the observer always kept both perspectives. The world was disturbing as well as magical, and the eye that saw it both innocent and knowing. In “Timothy Winters”, he wrote of a wild schoolboy with the boy's defiance and the teacher's frustration:

> When teacher talks he won't hear a word
> And he shoots down dead the arithmetic-bird
> He licks the patterns off his plate
> And he's not even heard of the Welfare State.

while in “Recruiting Drive”, one of many poems born out of his naval experiences in the second world war, the “lily-white boy” is both a pitiable piece of cannon-fodder and a character from a fairy tale:

> Under the willow the willow

I heard the butcher bird sing,
Come out you fine young fellow
From under your mother's wing...

You must take off your clothes for the doctor
And stand as straight as a pin,
His hand of stone on your white breastbone
Where the bullets all go in.

Even his rare non-ballads could not leave childhood songs aside, as in “Convoy”, about a drowned sailor in the Arctic:

He is now a child in the land of Christmas:
Watching, amazed, the white tumbling bears
And the diving seal.
The iron wind clangs round the ice-caps,
The five-pointed Dog-star
Burns over the silent sea,

And the three ships
Come sailing in.

Because such writing looks easy, and because the common man understands and likes it, Mr Causley was often scorned as simplistic and old-fashioned. His insistent rhymes and metres got on the nerves of those who thought only free verse or broken rhythms could express the modern muse. Yet the best poets—Philip Larkin, Ted Hughes—knew how deep simplicity could go, and admired him.

His natural shyness did not help him. He was brought up poor, and remained keenly aware of his working-class roots. His mother took in washing, but also saw that her son learned piano, where he encountered the bitter songs of the first world war. His own experiences in the next war, he always said, made him decide to be a poet. Before that he had worked as a clerk for a builder's firm and an electrical company. Though he travelled widely, he kept returning to the slate-and-stone town of Launceston in Cornwall, where he was born. Like most good poets, he thought the voyages of his imagination more important than travels round the world.

In that sense, too, he was true to his balladeer's calling. The old songs are rooted in local earth and feeling, and so, too, were his: not in England, properly speaking, but in Cornwall, that misty Celtic promontory running out into the Atlantic. Though he wrote of many other places, the core of his work was set in Marazion, Porth Veor, Lezant or Bodmin, on granite moors or under hawthorn hedges, and constantly within sight or hearing of the “long salt fingers” of the sea. Many Cornishmen wanted him for their official Poet Laureate, cocking a deliberate snub at their long-felt colonisation by Anglo-Saxons.

This is also a land peopled with giants, devils and saints, as Mr Causley saw them. Giant Winter lies over Wilsey Down, “the snow flossing his blue coat and his buckles/Drifting his lip and his eye.” A demon is shot down by St Michael, the “silver bowman”, over Helston, and Judas Iscariot returns as Jack O'Lent, running across the moors in search of redemption. All this, too, is in the style of ancient carols, which translated the Christian mysteries to local places and contemporary dress. But it is hard to think of any modern caroller who could pick up Mr Causley's pen.

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Overview

Nov 20th 2003
From The Economist print edition

The **dollar** fell this week to an all-time low against the euro of almost $1.20. The greenback also hit a three-year low against the yen of ¥107.60. The dollar's slump was triggered by the American government's decision to slap quotas on imports of Chinese clothing, adding to fears that Washington is turning more protectionist in order to preserve American jobs. The Dow Jones Industrial Average fell by 1.6% over the week; the Nikkei slumped by 6% .

The price of **gold** touched a seven-year high of $400 an ounce on worries about trade wars and global security. Oil prices rose above $33 a barrel, their highest since America invaded Iraq.

Japan's GDP grew at an annual rate of 2.2% in the third quarter, its seventh consecutive quarter of expansion. Compared with a year ago, real GDP grew by 2.3%, but nominal GDP fell by 0.4%. Over those 12 months, consumer spending rose by only 0.2%, but fixed capital investment jumped by 14.2%.

The **euro area** continues to lag: its GDP grew at an annual rate of only 1.6% in the third quarter, leaving output 0.3% up on a year ago. Italy grew faster than either Germany or France, with annualised growth of 2.0%. Euro-area industrial production fell by 1.8% in the year to September. The 12-month rate of consumer-price inflation was revised down to 2.0% in October, a whisker above the European Central Bank's inflation objective of “close to but less than 2%”.

America's inflation rate also fell in October, to 2.0%, its lowest for 12 months, as lower energy costs dragged prices down. Its core rate of inflation (excluding energy and food prices) edged up to 1.3%. American industrial production rose by 0.2% in October, to give a rise of 0.6% over the year. Industrial capacity utilisation rose to 75%, but that is still well below the average rate of 81% over the past half century. America's merchandise-trade deficit widened to $543 billion in the 12 months to September. Its trade gap with China increased to a record $12.7 billion in September.

Inflation continues to fall in most other economies. Canada's inflation rate fell from 2.2% in September to 1.6% in October. Over the same period, Britain's fell from 2.8% to 2.6%, and Sweden's from 1.7% to 1.4%.

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Output, demand and jobs

Nov 20th 2003
From The Economist print edition

% change on year ago

	GDP			The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	latest		qtr*	2003	2004	latest		latest		latest		year ago
Australia	+ 2.0	Q2	+ 0.5	+ 2.6	+ 3.7	+ 1.3	Q2	+ 5.3	Q3	5.6	Oct	6.0
Austria	+ 0.7	Q2	+ 1.1	+ 0.7	+ 1.8	+ 5.4	Feb	– 4.0	Aug	4.5	Sep	4.3
Belgium	+ 0.8	Q2	– 0.4	+ 0.9	+ 1.8	– 2.9	Sep	– 3.6	Aug	12.9	Oct†	11.9
Britain	+ 1.9	Q3	+ 2.3	+ 2.0	+ 2.7	– 1.0	Sep	+ 3.7	Oct	5.0	Sep††	5.3
Canada	+ 1.6	Q2	– 0.3	+ 2.0	+ 3.0	– 2.1	Aug	+ 3.7	Aug	7.6	Oct	7.6
Denmark	– 1.0	Q2	– 2.2	+ 0.8	+ 2.0	+ 0.5	Sep	+ 3.4	Aug	6.3	Sep	5.3
France	– 0.1	Q3	+ 1.6	+ 0.2	+ 1.7	– 1.8	Sep	– 2.2	May	9.7	Sep	9.1
Germany	– 0.2	Q3	+ 0.9	nil	+ 1.6	– 3.6	Sep	– 3.1	Sep‡	10.5	Oct§	9.9
Italy	+ 0.5	Q3	+ 2.0	+ 0.4	+ 1.6	– 1.7	Sep	– 3.4	Aug	8.5	Jul	9.0
Japan	+ 2.3	Q3	+ 2.2	+ 2.6	+ 1.8	+ 4.1	Sep	– 1.8	Sep	5.1	Sep	5.4
Netherlands	– 1.1	Q3	+ 0.4	– 0.6	+ 1.1	– 1.2	Sep	– 7.4	Aug	5.4	Oct**	4.3
Spain	+ 2.3	Q2	+ 2.7	+ 2.2	+ 2.8	+ 2.0	Sep	+ 2.0	Aug	11.2	Sep	11.5
Sweden	+ 1.1	Q2	+ 1.1	+ 1.5	+ 2.3	+ 0.2	Sep	+ 3.8	Sep	5.1	Oct†	3.7
Switzerland	– 1.0	Q2	– 1.2	– 0.5	+ 1.4	– 2.8	Q2	+ 2.7	Sep	3.8	Oct†	2.8
United States	+ 3.3	Q3	+ 7.2	+ 2.8	+ 3.9	+ 0.6	Oct	+ 8.3	Sep	6.0	Oct	5.8
Euro area	+ 0.3	Q3	+ 1.6	+ 0.4	+ 1.8	– 1.8	Sep	– 0.9	Aug	8.8	Sep	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 0.8	Q2	+ 2.4	na	na	+ 1.4	Sep	+ 5.3	Aug	8.3	Oct†	8.5
Greece	+ 4.5	Q2	+ 0.4	na	na	+ 2.1	Jul	na		na		na
Iceland	+ 2.7	Q2	na	na	na	– 0.3	2002	na		2.7	Sep†	2.2
Ireland	+ 2.1	Q2	na	na	na	– 2.5	Sep	+ 0.4	Aug	4.4	Oct	4.3
Luxembourg	+ 1.1	2002	na	na	na	+ 9.5	Aug	+ 1.2	Jun	3.9	Sep	3.0
New Zealand	+ 2.0	Q2	– 0.5	na	na	+ 2.5	Q2	+ 6.1	Q3	4.4	Q3	5.4
Norway	– 2.0	Q2	– 0.6	na	na	+ 3.7	Sep	+ 5.3	Sep	4.7	Q3	3.8
Portugal	– 2.3	Q2	+ 0.5	na	na	+ 2.3	Sep	– 0.3	Sep	6.3	Q3†	5.1

*% change on previous quarter at an annual rate. † Not seasonally adjusted. ‡ New series. †† Jul-Sep; claimant count rate 3% in Sep. §EU harmonised rate 9.4% in Sep. **Aug-Oct.

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Prices and wages

Nov 20th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.6	Q3	+ 3.2	+ 2.7	+ 2.3	– 0.1	Q3	– 0.2	+ 5.1	Q3	+ 3.6
Austria	+ 1.0	Oct	+ 1.7	+ 1.3	+ 1.1	+ 2.0	Oct	+ 0.3	+ 2.3	Sep	+ 2.3
Belgium	+ 1.6	Oct	+ 1.3	+ 1.5	+ 1.3	– 1.9	Sep	+ 0.8	+ 1.9	Q3	+ 2.1
Britain	+ 2.6	Oct	+ 2.1	+ 2.7	+ 2.4	+ 1.4	Oct	+ 0.5	+ 3.6	Sep	+ 3.8
Canada	+ 1.6	Oct	+ 3.2	+ 2.7	+ 1.7	– 2.6	Sep	+ 0.6	+ 3.1	Aug	+ 2.7
Denmark	+ 1.4	Oct	+ 2.5	+ 2.2	+ 1.6	nil	Oct	+ 0.8	+ 3.6	Q3	+ 3.9
France	+ 2.2	Oct	+ 1.9	+ 2.0	+ 1.5	+ 0.2	Sep	+ 0.3	+ 3.0	Q3	+ 3.5
Germany	+ 1.2	Oct	+ 1.3	+ 1.1	+ 0.9	+ 0.8	Oct	+ 0.9	+ 2.0	Sep	+ 2.6
Italy	+ 2.6	Oct	+ 2.7	+ 2.7	+ 2.1	+ 1.0	Sep	+ 0.9	+ 2.7	Sep	+ 2.1
Japan	– 0.2	Sep	– 0.7	– 0.3	– 0.3	– 0.4	Oct	– 1.6	+ 1.3	Sep	+ 1.4
Netherlands	+ 2.0	Oct	+ 2.9	+ 2.3	+ 1.7	+ 1.1	Sep	+ 1.1	+ 2.3	Oct	+ 3.4
Spain	+ 2.6	Oct	+ 4.0	+ 3.1	+ 2.7	+ 0.8	Sep	+ 1.0	+ 4.2	Q2	+ 4.0
Sweden	+ 1.4	Oct	+ 2.5	+ 2.1	+ 1.7	– 1.5	Sep	– 0.7	+ 3.2	Aug	+ 2.9
Switzerland	+ 0.5	Oct	+ 1.3	+ 0.6	+ 0.5	– 0.3	Oct	– 0.7	+ 1.8	2002	+ 2.5
United States	+ 2.0	Oct	+ 2.0	+ 2.3	+ 1.4	+ 3.4	Oct	+ 0.7	+ 2.4	Oct	+ 3.1
Euro area	+ 2.0	Oct	+ 2.3	+ 2.0	+ 1.6	+ 1.1	Sep	+ 0.2	+ 2.9	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.3	Oct	+ 1.5	na	na	– 0.9	Oct	+ 0.8	+ 4.3	Q2	+ 3.9
Greece	+ 3.3	Aug	+ 3.5	na	na	+ 2.2	Aug	+ 2.1	na		na
Iceland	+ 2.5	Nov	+ 2.4	na	na	+ 3.7	Oct	+ 6.2	+ 5.6	Sep	+ 5.8
Ireland	+ 2.3	Oct	+ 4.7	na	na	– 7.8	Sep	– 1.7	+ 8.7	Q2	+ 3.5
Luxembourg	+ 1.7	Oct	+ 2.2	na	na	+ 0.4	Sep	nil	+ 2.2	Aug	– 1.6
New Zealand	+ 1.5	Q3	+ 2.6	na	na	– 2.0	Q2	+ 1.5	+ 2.3	Q3	+ 2.3
Norway	+ 1.6	Oct	+ 1.8	na	na	+ 2.1	Oct	+ 4.4	+ 5.4	Q2	+ 4.9
Portugal	+ 3.0	Oct	+ 4.0	na	na	– 0.3	Sep	+ 0.1	– 2.1	Sep	+ 0.1

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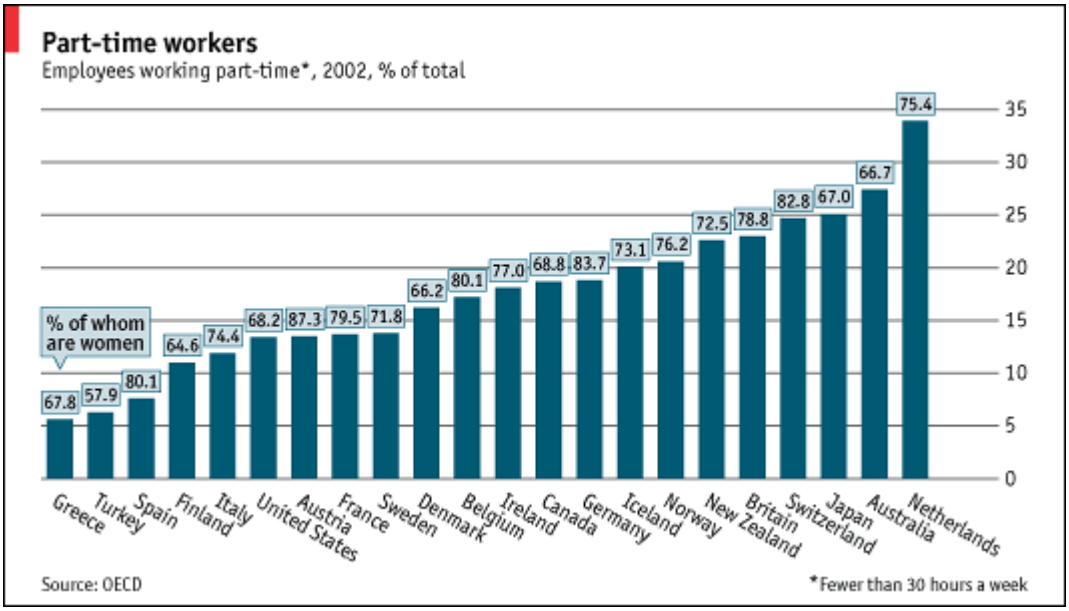
Part-time workers

Nov 20th 2003
From The Economist print edition



The importance of part-time working varies enormously across developed economies. In the Netherlands, part-time employment accounts for as much as one third of all jobs. In Japan it accounts for a quarter. But in Greece, Spain and Turkey less than 10% of employees work fewer than 30 hours a week. In all developed economies, however, women are the principal part-timers.

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Money and interest rates

Nov 20th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 19th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.8	+12.9	Sep	5.37	4.82	5.55	5.78	5.39	6.54
Britain	+ 7.3	+ 7.4	Oct	3.94	3.91	4.46	4.98	4.52	5.72
Canada	+ 8.5	+ 5.5	Sep	2.73	2.72	3.25	4.82	5.05	6.51
Denmark	+ 5.1	+ 6.2	Sep	2.18	3.35	2.83	4.47	4.53	5.54
Japan	+ 5.6	+ 1.5	Oct	0.02	0.02	0.11	1.31	1.00	1.44
Sweden	+ 3.2	+ 4.9	Sep	2.71	3.81	3.19	4.86	4.89	3.86
Switzerland	+27.2	+ 9.8	Oct	0.24	0.73	0.11	2.71	2.35	2.61
United States	+ 7.0	+ 5.9	Oct	1.06	1.33	1.87	4.21	4.06	5.81
Euro area†	+11.3	+ 7.4	Sep	2.15	3.08	2.57	4.30	4.36	4.14

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.08%, Japan No. 256 1.29%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 20th 2003
From The Economist print edition

1995=100

	Nov 11th	Nov 18th*	% change on one month	% change on one year
Dollar index				
All items	86.9	87.9	+ 3.9	+15.6
Food	87.2	87.6	+ 4.6	+ 9.6
Industrials				
All	86.4	88.2	+ 3.0	+24.9
Nfa†	88.5	91.6	+ 3.1	+26.7
Metals	84.7	85.3	+ 2.8	+23.3
Sterling index				
All items	82.3	81.6	+ 2.5	+ 8.2
Euro index				
All items	99.1	97.2	+ 2.1	- 1.6
Yen index				
All items	100.5	101.2	+ 2.5	+ 2.9
Gold				
$ per oz	388.25	396.25	+ 4.8	+23.8
West Texas Intermediate				
$ per barrel	31.13	33.18	+10.6	+25.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Nov 20th 2003
From The Economist print edition

Market indices

	Nov 19th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,189.1	3,310.6	2,673.3	- 0.9	- 7.3	+ 7.2	+37.6
Austria (ATX)	1,459.8	1,459.8	1,120.2	+ 1.8	-16.0	+26.9	+44.2
Belgium (Bel 20)	2,151.3	2,203.4	1,426.6	- 1.7	-41.6	+ 6.2	+20.7
Britain (FTSE 100)	4,327.4	4,397.0	3,287.0	- 1.0	-37.6	+ 9.8	+15.9
Canada (Toronto Composite)	7,801.1	7,870.9	6,228.6	nil	-31.5	+17.9	+43.1
Denmark (KBX)	214.5	222.6	145.0	- 0.8	-28.9	+29.0	+46.4
France (SBF 250)	2,288.7	2,358.4	1,630.1	- 1.9	-47.9	+11.5	+26.7
(CAC 40)	3,343.4	3,453.1	2,403.0	- 2.0	-51.7	+ 9.1	+24.0
Germany (DAX)	3,652.3	3,797.4	2,203.0	- 2.6	-54.7	+26.3	+43.5
Italy (BCI)	1,230.2	1,246.8	959.4	nil	-43.6	+12.7	+28.0
Japan (Nikkei 225)	9,614.6	11,161.7	7,607.9	- 6.0	-75.3	+12.1	+22.0
(Topix)	953.2	1,105.6	770.6	- 5.3	-67.0	+13.0	+23.0
Netherlands (AEX)	327.2	343.0	218.4	- 2.9	-53.4	+ 1.4	+15.2
Spain (Madrid SE)	757.6	774.1	576.8	- 1.4	-33.9	+19.5	+35.8
Sweden (Affarsvarlden Gen)	180.6	186.3	127.8	- 1.2	-54.9	+24.4	+44.0
Switzerland (Swiss Market)	5,197.6	5,422.6	3,675.4	- 1.4	-38.2	+12.2	+19.2
United States (DJIA)	9,690.5	9,858.5	7,524.1	- 1.6	-17.3	+16.2	+16.2
(S&P 500)	1,042.4	1,059.0	800.7	- 1.5	-31.8	+18.5	+18.5
(NASDAQ Comp)	1,899.7	1,976.4	1,271.5	- 3.7	-62.4	+42.2	+42.2
Europe (FTSE Eurotop 300)*	915.9	941.5	682.7	- 1.7	-46.3	+ 6.9	+21.4
Euro area (FTSE Ebloc 100)*	784.4	808.8	565.7	- 2.0	-49.4	+ 9.2	+24.1
World (MSCI)†	957.4	972.7	710.8	- 1.1	-33.9	+20.9	+20.9
World bond market (Citigroup)‡	580.9	583.9	518.6	+ 1.7	- 0.5	+10.6	+10.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Nov 20th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Nov 19th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Nov 19th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 13.5 Sep	− 24.4 Q2	− 5.6	− 4.9	86.5	74.3	1.38	1.79	2.35	1.65	1.27	0.2
Austria	− 0.6 Aug	+ 0.5 Sep	nil	− 0.1	102.6§	100.8	0.84	1.00	1.43	–	0.77	-1.3
Belgium	+ 20.7 Sep	+ 11.2 Jun	+ 4.7	+ 4.8	102.6§	100.0	0.84	1.00	1.43	–	0.77	nil
Britain	− 73.9 Sep	− 28.6 Q2	− 1.7	− 1.5	99.6	106.0	0.59	0.63	–	0.70	0.54	-1.9
Canada	+ 41.5 Sep	+ 14.7 Q2	+ 1.7	+ 1.4	88.9	74.9	1.30	1.58	2.21	1.55	1.19	1.1
Denmark	+ 9.7 Sep	+ 5.3 Sep	+ 2.7	+ 2.7	106.2	103.3	6.24	7.40	10.6	7.44	5.72	1.6
France	+ 5.6 Sep	+ 20.6 Sep	+ 1.4	+ 1.4	106.0§	102.9	0.84	1.00	1.43	–	0.77	-3.6
Germany	+137.2 Sep	+ 56.4 Sep	+ 2.0	+ 2.0	103.5§	99.9	0.84	1.00	1.43	–	0.77	-3.7
Italy	+ 1.6 Sep	− 20.9 Sep	− 0.8	− 0.7	75.6§	73.4	0.84	1.00	1.43	–	0.77	-2.4
Japan	+ 97.7 Sep	+123.3 Sep	+ 2.8	+ 2.9	136.6	131.0	109	123	185	130	–	-7.7
Netherlands	+ 31.5 Sep	+ 15.1 Q2	+ 2.3	+ 2.6	102.1§	99.1	0.84	1.00	1.43	–	0.77	-1.6
Spain	− 49.2 Aug	− 23.1 Aug	− 2.4	− 2.2	76.9§	75.0	0.84	1.00	1.43	–	0.77	-0.4
Sweden	+ 17.1 Sep	+ 11.1 Q2	+ 4.1	+ 4.1	82.6	78.4	7.53	9.04	12.8	8.98	6.90	0.7
Switzerland	+ 6.1 Oct	+ 35.0 Q2	+11.0	+11.0	111.5	114.7	1.30	1.46	2.21	1.55	1.19	na
United States	−542.6 Sep	−528.7 Q2	− 5.1	− 5.3	97.6	113.6	–	–	1.70	1.19	0.92	-4.6
Euro area	+ 84.3 Sep	+ 34.7 Aug	+ 0.4	+ 0.5	90.6	82.8	0.84	1.00	1.43	–	0.77	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.7 Sep	+ 10.0 Sep	na	na	81.5§	79.0	0.84	1.00	1.43	–	0.77	3.1
Greece	− 24.3 Aug	− 10.7 Sep	na	na	59.2§	58.0	0.84	1.00	1.43	–	0.77	-1.0
Iceland	− 0.1 Sep	− 0.2 Q2	na	na	95.0**	93.0	75.1	85.7	128	89.6	68.9	nil
Ireland	+ 37.5 Aug	− 2.1 Q2	na	na	94.2§	89.1	0.84	1.00	1.43	–	0.77	-0.8
Luxembourg	− 3.3 Aug	+ 1.5 Q2	na	na	102.6§	100.0	0.84	1.00	1.43	–	0.77	0.2
New Zealand	− 1.7 Sep	− 2.9 Q2	na	na	102.3	90.3	1.57	2.01	2.67	1.87	1.44	0.8
Norway	+ 28.0 Oct	+ 27.0 Aug	na	na	98.2	106.3	6.85	7.30	11.6	8.17	6.28	11.3
Portugal	− 12.9 Aug	− 7.8 Aug	na	na	93.6**	91.2	0.84	1.00	1.43	–	0.77	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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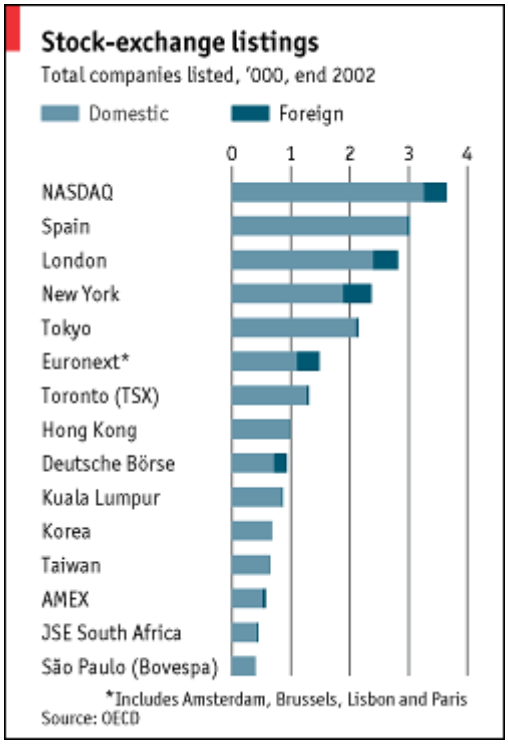
Stock-exchange listings

Nov 20th 2003
From The Economist print edition



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Overview

Nov 20th 2003
From The Economist print edition

Asian economies have rebounded from the downturn this spring caused by the SARS outbreak. In **Taiwan** and **Singapore**, GDP rose by 4.2% and 1.7% respectively in the year to the third quarter. **Indonesia** grew by 3.9% and **Malaysia** by 3.5% over the same period.

Spooked by political uncertainty, **Russia's** stockmarket fell by 7.5% over the week to reach a three-month low. Stockmarkets also fell by over 5% in **Thailand** and **Poland**.

Mexico's economy grew by only 0.4% in the year to the third quarter.

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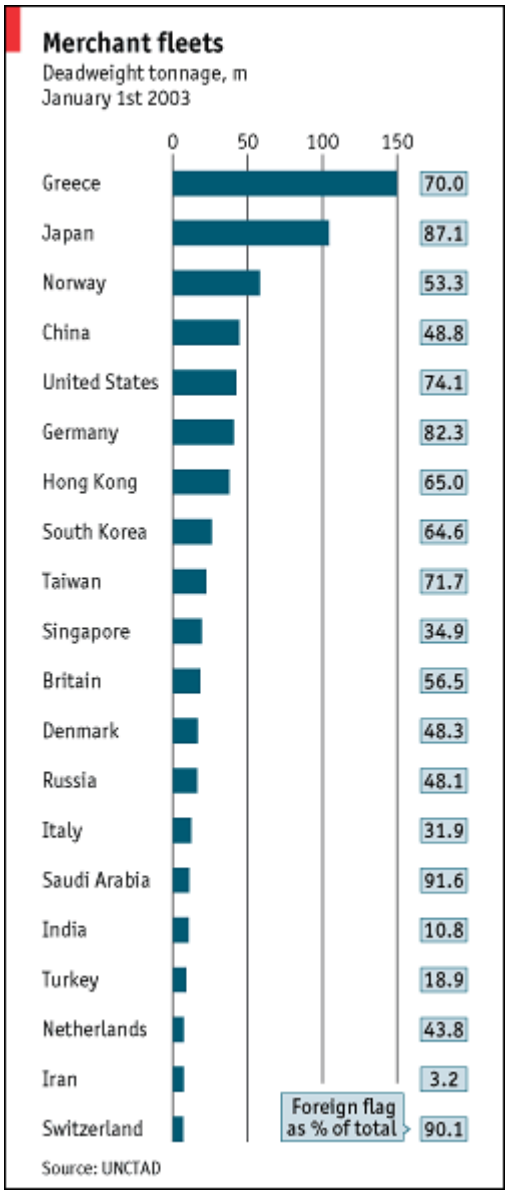
Merchant fleets

Nov 20th 2003
From The Economist print edition

Between them, Greek and Japanese shipping lines own more than 30% of the world's merchant tonnage, according to a report by the United Nations Conference on Trade and Development. Other countries with sizeable maritime fleets include Norway, China and America. Many vessels, however, are registered under foreign flags of convenience. About 70% of developed countries' ships currently sail under such flags.



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Economy

Nov 20th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+17.2	Oct	+ 1.8	Oct	+20.6	Oct	+35.4	2002	383.9	Sep
Hong Kong	– 0.5	Q2	–12.5	Q2	– 3.2	Sep	– 6.9	Sep	+18.4	Q2	112.4	Oct
India	+ 5.7	Q2	+ 6.5	Sep	+ 2.9	Sep	–12.4	Sep	+ 2.8	Q2	88.7	Oct
Indonesia	+ 3.9	Q3	+ 4.7	Jul	+ 6.2	Oct	+26.1	Sep	+ 6.7	Q1	32.8	Sep
Malaysia	+ 3.5	Q3	+ 9.7	Sep	+ 1.3	Oct	+17.4	Sep	+10.1	Q2	37.7	Sep
Philippines	+ 3.2	Q2	+ 7.0	Aug	+ 3.1	Oct	– 1.4	Sep	+ 2.8	Jul	13.5	Oct
Singapore	+ 1.7	Q3	+ 6.3	Sep	+ 0.7	Sep	+17.4	Oct	+23.8	Q2	92.5	Oct
South Korea	+ 1.9	Q2	+ 6.6	Sep	+ 3.7	Oct	+12.8	Oct	+ 6.9	Sep	141.5	Sep
Taiwan	+ 4.2	Q3	+ 7.5	Sep	– 0.1	Oct	+19.0	Oct	+26.9	Q2	196.6	Oct
Thailand	+ 5.8	Q2	+10.5	Sep	+ 1.2	Oct	+ 4.6	Sep	+ 8.5	Sep	39.3	Oct
Argentina	+ 7.6	Q2	+10.8	Sep	+ 3.9	Oct	+17.3	Sep	+10.2	Q2	13.4	Sep
Brazil	– 1.3	Q2	+ 4.2	Sep	+14.0	Oct	+23.4	Oct	+ 3.6	Sep	52.7	Sep
Chile	+ 2.7	Q2	+ 5.8	Sep	+ 1.2	Oct	+ 2.6	Oct	– 0.8	Q2	15.7	Oct
Colombia	+ 2.0	Q2	– 1.2	Aug	+ 6.6	Oct	– 0.1	Aug	– 1.7	Q2	10.5	Oct
Mexico	+ 0.4	Q3	– 0.6	Sep	+ 4.0	Oct	– 6.4	Sep	–11.5	Q2	52.1	Sep
Peru	+ 3.6	Sep	+ 1.4	Aug	+ 1.3	Oct	+ 0.4	Sep	– 1.2	Q2	9.1	Oct
Venezuela	– 9.4	Q2	–13.6	Aug	+25.6	Oct	+14.6	Q2	+ 9.3	Q2	14.5	Sep
Egypt	+ 3.1	2003†	+ 4.2	2002†	+ 4.5	Aug	– 7.1	Mar	+ 1.9	Q2	13.4	Jul
Israel	+ 2.8	Q3	– 0.9	Aug	– 2.6	Oct	– 6.4	Oct	nil	Q2	24.9	Oct
South Africa	+ 1.8	Q2	– 3.6	Sep	+ 3.7	Sep	+ 3.2	Sep	– 0.9	Q2	6.5	Sep
Turkey	+ 3.9	Q2	+12.7	Sep	+20.8	Oct	–19.3	Aug	– 4.7	Aug	33.9	Sep
Czech Republic	+ 2.1	Q2	+ 2.7	Aug	+ 0.4	Oct	– 2.3	Sep	– 5.0	Q2	25.6	Oct
Hungary	+ 2.4	Q2	+ 5.6	Sep	+ 4.9	Oct	– 3.9	Sep	– 5.3	Sep	12.8	Sep
Poland	+ 3.8	Q2	+11.1	Sep	+ 1.3	Oct	–10.2	Oct	– 4.8	Sep	32.5	Oct
Russia	+ 7.2	Q2	+ 7.2	Oct	+13.1	Oct	+56.4	Sep	+38.0	Q3	61.2	Oct
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 3.5	Q2	+ 9.7	Sep	+ 1.0	Oct	– 1.8	Sep	– 1.5	Q3	1.2	Sep
Latvia	+ 6.2	Q2	+ 9.4	Sep	+ 3.3	Oct	– 1.9	Sep	– 0.9	Sep	1.4	Sep
Lithuania	+ 6.7	Q2	na		– 1.4	Oct	– 2.4	Sep	– 0.9	Q2	2.8	Sep
Slovakia	+ 3.8	Q2	+ 3.9	Sep	+ 9.6	Oct	– 1.2	Sep	+ 1.1	Jul	10.0	Sep
Slovenia	+ 2.1	Q2	+ 0.9	Sep	+ 4.8	Oct	– 0.5	Jul	+ 0.1	Sep	7.6	Aug
Pakistan	+ 5.1	2003†	+ 7.2	Jun	+ 3.5	Oct	– 1.2	Oct	+ 3.6	Q3†	9.9	Sep
Saudi Arabia	+ 1.0	2002	na		– 1.2	Jul	+41.8	2002	+11.7	2002	22.4	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Nov 20th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 19th		Dec 31st 2002	
	Nov 19th	year ago	Nov 19th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	14.1	na	1,400.1	+1.6	– 1.3	– 1.3
Hong Kong	7.76	7.80	13.2	0.18	11,873.0	-0.8	+ 27.4	+ 28.0
India	45.6	48.2	77.5	4.94	4,823.7	-3.6	+ 42.8	+ 50.1
Indonesia	8,474	8,968	14,400	8.83	601.9	-2.9	+ 41.7	+ 49.6
Malaysia	3.80	3.80	6.46	3.03	766.0	-3.1	+ 18.5	+ 18.5
Philippines	55.4	53.7	94.1	8.44	1,318.3	-3.3	+ 29.4	+ 24.8
Singapore	1.71	1.77	2.91	0.69	1,677.4	-2.3	+ 25.1	+ 26.5
South Korea	1,177	1,209	2,000	4.26	771.7	-3.1	+ 23.0	+ 23.9
Taiwan	34.0	34.8	57.7	1.05	5,865.5	-2.0	+ 31.7	+ 34.9
Thailand	39.9	43.5	67.8	1.39	619.0	-5.3	+ 73.7	+ 87.5
Argentina	2.87	3.52	4.87	4.88	921.1	-0.4	+ 75.4	+105.9
Brazil	2.94	3.51	5.00	18.84	18,807.3	+0.1	+ 66.9	+100.7
Chile	632	697	1,074	2.76	7,146.9	nil	+ 42.4	+ 62.2
Colombia	2,823	2,668	4,798	7.96	2,220.8	+1.4	+ 38.0	+ 40.2
Mexico	11.2	10.2	19.1	5.15	8,351.3	-2.2	+ 36.3	+ 27.1
Peru	3.48	3.59	5.91	2.48	2,101.0	-0.4	+ 50.9	+ 52.5
Venezuela	1,598	1,337	2,716	18.01	20,130.5	-5.5	+151.2	+118.0
Egypt	6.15	4.63	10.44	6.89	11,157.1	+1.2	+107.7	+ 56.5
Israel	4.49	4.68	7.64	2.47	503.4	+1.8	+ 51.4	+ 60.1
South Africa	6.60	9.70	11.2	7.90	9,657.7	-1.7	+ 4.1	+ 35.4
Turkey	1,466,500	1,589,500	2,492,170	25.00	15,780.2	+0.1	+ 52.2	+ 72.3
Czech Republic	26.7	30.5	45.4	2.07	627.7	-0.4	+ 36.2	+ 53.4
Hungary	217	237	368	9.74	9,490.0	-3.2	+ 21.7	+ 26.2
Poland	3.88	3.94	6.59	5.63	19,333.5	-5.2	+ 34.6	+ 33.1
Russia	29.8	31.8	50.6	16.00	480.7‡	-7.5	+ 24.8	+ 33.9
EMF (MSCI)*	1.00	1.00	1.70	na	404.3	-2.0	+ 38.4	+ 38.4
EMBI+†	1.00	1.00	1.70	na	285.0	+0.3	+ 24.5	+ 24.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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